Prudential plc – 2009 Unaudited Results and Acquisition of AIA
Transcript of Presentation to Analyst and Investors
1st March 2010

PRESENTATION

Harvey McGrath (Chairman)

Good afternoon everybody. I am Harvey McGrath Chairman of the PRU and it is a pleasure to welcome you all here today on what must rank I think as one of the more significant days in the Prudential's long history. Now clearly we are going to be very focused on the transaction that we have announced today, but I think we also want to acknowledge the full year unaudited results that as you will have seen, we have also announced this morning. I say that because in unprecedented economic circumstances Tidjane and the team have delivered record performance in sales, in profits and in margins. The Prudential has emerged from this financial crisis as one of the strongest insurers in the world, and this success truly means that we can look at the opportunity offered by the combination with AIA and be confident that we will deliver value to shareholders.

That transaction, that combination with AIGs insurance operations in Asia is entirely consistent as you all know with the Group's established strategy. It is consistent with our proven value driven Asian growth story. And I don't need to tell you that the deal is truly transformational. The combined Group will become the leading life insurer in Asia and one of the largest financial services businesses world wide. The Board is confident that this deal is an attractive one and will create substantial long term shareholder value. With that let me hand over to Tidjane who can put some flesh on the bones of the announcement that we have made today.

Tidjane Thiam (Group Chief Executive)

Thank you Harvey and good afternoon.

I am afraid we're developing a pattern here, because we surprised you last year. I think we outdid ourselves this year and I cannot promise anything like that next year. I am delighted to be here to present our results for '09 and talk to you about the AIA acquisition.

This transaction offers the rare opportunity to bring together two outstanding companies, creating an ideal opportunity for us to capture the expected growth in the Asia market and accelerate our strategy. I will talk about that in more detail later. There is a lot of information to cover today.

As you know we were scheduled to present our results on 9th March, so in about eight days from now, but external events have forced us to accelerate our timetable slightly, so things may not be as well oiled as they usually are. But we are where we are. The numbers you are going to see are unaudited. We will do these figures in Sterling as usual. However going forward, given that our earnings I believe will be dominated by Dollar linked currencies, we are likely to report in Dollars.

Before talking about the transaction in more detail, I wanted to reflect on the 2009 unaudited results that we have also released this morning. 2009 frankly was a very good year for Prudential, as you can see. I think I said about a year ago, as I was appointed that I would be focused on operational delivery, I believe we have done that. Retail sales on which I have focused have increased by 11%. Total sales are up 1%, but that is because we decided not to sell wholesale products, and there is the big C&W contract in the 2008 comparatives. New business profit was a record and up 34%. Both EEV and IFRS profits are up strongly.

Regarding the capital position, during 2009 we have moved the IGD surplus to 3.4 billion up from 1.5 at the end of 2008 after taking significant impairments. I have talked at previous results about free surplus as a good proxy for cash generation, and I am pleased to see that number moving ahead very strongly in 2009. As we have also said previously we have continued to upstream cash from the businesses to meet our central requirements of paying the dividend and our central costs. We have recommended a full year dividend increase of 5%.

Before I hand over to Nic to talk through the results in more detail, I just want to highlight three key areas which I have talked to you about often. The first one is new business and sales. We haven't done our Q4 results, so I know this is new to you. I think we have had a fantastic result, with retail sales up 11%, especially in Q4; which was the highest ever driven by Asia. Asia is really back and we have achieved good base growth. Q4 sales across the Group are up 25%, Q4 on Q3 in '09 and 31% against Q4 '08. And Asia which may surprise some commentators is ahead 42% on Q3 and 45% on Q408.

So as you will see this was achieved whilst increasing margins and Nic will go back to that. But on the next slide to the format you have seen before, I would just give you the new business profit and their pattern. In Asia, new business profits are up 12%. We have achieved the commitment made by Mark Tucker in 2005 to double by 2009. We have doubled. The US has been phenomenal. It is not often that one gets the opportunity to report a three digit growth rate, not in sales but in profit, and this is down to our great success in the VA market. In the UK, new business profits are lower; that is mainly due to our decision not to sell wholesale products. And as you can see across the Group, the IRRs and the paybacks remain very attractive. A combination of high margins, high IRRs and short paybacks is unique amongst our peer group I believe.

Finally close to my heart is the new business strain, something we have been focusing on. This is a number I said I would manage down. We didn't set a target at the time, but you can see that we have increased new business profits by 34%, and at the same time reduced new business strain by 16%. We have delivered strong new business profitability with less capital consumed. With that, I will now hand over to Nic to talk you through our results in more detail.

Nic Nicandrou (Chief Financial Officer)

Thank you Tidjane and good morning everyone or good afternoon.

I am delighted to be addressing you today as the CFO of Prudential, and I can safely say that my first 16 weeks with the Group have been anything but dull. Roll on, the next 16 weeks. My presentation will cover the financial performance for the year and provide you with an update on the progress that we have made on managing risk and on managing capital.

The results that we're reporting today demonstrate the success of our strategy which in 2009 saw us adopt a conservative approach to sales, focusing on cash and capital generation; which we deployed to the most profitable products in the most attractive geographic markets. As a result, and against a difficult market backdrop we have delivered a very strong operating performance across all of our operations, and achieved many firsts in the process. In addition we have successfully evolved our business model which has become a powerful engine for generating growth in the underlying free surplus.

Our overall performance for the year is summarised on this next slide. In overview, 2009 was a record year for EEV operating profitability, up 8% to 3.1 billion. A record year for IFRS operating profitability, up 10% to 1.4 billion, and a record year for new business profits. Our focus on capital preservation produced record levels of underlying free surplus which nearly trebled to 2.5 billion Sterling. Our shareholder funds have rebounded strongly from the mid-2009 lows, and our central cash resources have been enhanced through a combination of continued high remittances from businesses and subordinated debt raising during the course of 2009. And we have delivered this performance without releasing a single Pound of our already strong UK credit default reserves; which at 31st December 2009 stood at 1.6 billion on a Pillar 1 basis.

Starting with new business on this next slide, I have already indicated that we took a cautious approach to sales in 2009. This meant that we pulled back completely from wholesale business in the US and the UK, and pursued the most attractive opportunities from a profitability standpoint. This meant that whilst our total sales were flat, at a retail level sales rose by 11% to 2.9 billion, with a strong year-on-year growth reported in our US and Asian businesses which more than offset our planned reduction in the UK.

Looking at the performance by market and starting with Asia, sales grew by 4% to 1.261 billion on the back of the pick up in performance in the fourth quarter that Tidjane referred to. Within this total, sales from our most profitable markets in South East Asia including Hong Kong rose by 18% to 767 million. The proportion of Health and Protection sales rose to 29%, whilst the proportion of unit linked sales fell back to 41%. Agency continues to be the main channel of distribution, accounting for 63% of the total and Bank Assurance now accounts for a quarter of our total Asian sales.

Jackson was a major beneficiary in the flight-to-quality which accompanied the significant change in the competitive landscape in the US market. Where several of our competitors scaled back their product offerings due to capital constraints, and where financial strength downgrades caused consumers to question the financial stability of certain providers. Jackson's advantaged position in advice based distribution, strong reputation for innovation in product design, efficient service and capital strength saw it capture market share in its chosen annuity product lines and deliver a record year in retail sales, 53% higher to 912 million. We were successful in capturing an increased share of the VA market, which was stimulated in the second half of the year by the equity market rally. We are now ranked fourth in this market, with a share of 7.3%, variable annuities in fact now account for 70% of Jackson's sales. The step change in profitability with margins up to 73% was a direct consequence of the shift in product mix, coupled with our disciplined approach to pricing, but more of that in a moment.

Finally in the UK our retail sales were down 11% as we continued to prioritise value over volume, focusing on those products where we have market leading positions, namely annuities and with-profits. We chose not to write any bulk business in 2009 in order to conserve capital, and we adopted a pricing strategy on annuities which optimised the balance between capital consumption and value creation. The result of this was a 3 percentage point improvement in our margins.

When you step back you clearly see that the majority of our Asian sales are now coming from South East Asia which is highly profitable. The predominant component of our US sales is VAs which are capital efficient and have a short payback. And in the UK, our focused approach is paying dividends. This outcome is very deliberate and represents the right shape for our business.

In this next slide, I provide a bit more colour on the margins for the Asian region. I have already mentioned that we grew our sales in South East Asia and Hong Kong and the importance of this is illustrated by reference to the level of new business margin from these businesses which increased to 78% in 2009. Our margins in the more mature North East Asian markets of Taiwan, Korea and Japan are lower. These markets displayed profitability characteristics similar to those in the Western world. Here we will compete where it is profitable for us to do so and we are prepared to lose market share, with Korea being the case in point. The contribution to our new business profitability from China and India remains modest, in part reflecting the fact that we own 50% and 26% of these businesses respectively. Furthermore, whilst China represents a profitable place to do business, foreign JVs, access to the market is severely restricted.

The chart on the right hand side of the slide shows how the overall margin has moved year-on-year, the main components of the improvement are the 2.7 percentage points from the shift in country mix towards South East Asia and the 2.4 percentage point increase due to the higher proportion of Health and Protection.

Moving onto the US product margins and starting with VAs, margins have improved from 43-81% in 2009 due to the following factors.

Firstly, given market volatility, customers elected more VA optional benefits. To give you an example, the percentage of policies on which the GMWB option was elected, rose from 55% in 2008 to 79% in 2009. At the same time Jackson selectively reduced the level of guaranteed benefits offered and the combined effect of these actions contributed to about half of the uplift in the margin. Secondly, the higher spread on the fixed option and improved assumptions on the GMWB utilisation rate contributed to a quarter of the margin increase. And finally, the remaining uplift reflects the benefit of higher earn rates on separate account assets.

Turning to fixed annuities where margins improved from 37-57% in 2009. This reflects the benefit of higher spread assumptions which we commented on at the interims. As we flagged at the time, the spreads narrowed in the second half of 2009 as markets normalised. The benefit of higher spreads was partly offset by the impact of higher risk discount rates, which now incorporate an additional allowance for short term credit risk of 150 basis points. These same factors also explain the movement on the margins for fixed indexed annuities.

The overall 2009 margin pick up reflects both Jackson's disciplined approach to pricing and the benefits of some exceptional yields achieved in 2009, caused by the dislocation in the fixed income market. Margins will trend down over the term of the cycle as markets normalise, and the dislocation in the competitive landscape unravels. Jackson will continue to leverage its strengths, remain disciplined on margins and focused on returns.

Our EEV operating profits have increased by 8% to 3.1 billion. This record performance was underpinned by a 13% increase in earnings from our life operations, to 3.2 billion, with a broadly equal contribution from new and in-forced business. Tidjane has already commented on the improvement in new business profits to 1.6 billion. In relation to in-force, it was encouraging to see that against the difficult market backdrop, our back-book embedded value has held up well overall, with experience, variance and assumption changes broadly offsetting to a small positive contribution to profit. More about this on the next slide.

Our asset management businesses maintained and improved their excellent investment performance record, and as a result reported record net inflows in 2009, up 261% to 15.4 billion. Not withstanding these record inflows, profits were down 11% at 348 million, due to depressed values of assets under management. Profits did rebounce strongly in the second half of the year as fund values recovered.

Turning to other items, income on central assets were lower as short term interest rates fell. The higher interest costs that you see on the slide stem from the additional subordinated debt issued in May and July. Corporate and Asia regional costs increased principally due to higher project costs.

On this next slide, I analyse the in-force business profits for each of our life operations. Unwind of discount rate and expected returns are 17% higher at 1.421 billion, partly due to the use of higher risk discount rates and earned rates, particularly in the US, but more importantly, reflecting the growing maturity of our back-book, especially in Asia, where this component of profits increased by 20% to 489 million. Overall experience variances and assumption changes made a total positive contribution of 180 million in 2009, lower than the 425 million equivalent figure in 2008; which benefited from the one-off effect of rebalancing the asset portfolio backing UK annuity liabilities. Asia experience variances and assumption changes were overall negative, largely as a result of the persistency related losses in the first half of 2009 which at the time amounted to 107 million, mainly due to premium holidays in Korea and fund withdrawals in India.

In the second half of the year, lapse losses slowed down to 47 million, reflecting the benefit of the action taken to improve customer retention. Other variance and assumption changes including those relating to expense, mortality and morbidity had a net positive contribution to Asian full year profits of 57 million. The US experience variances and assumption changes were overall positive at 225 million in 2009. This includes 156 million which reflects the beneficial impact on in-force business of the change in the assumption relating to the GMWB utilisation rate. This assumption was previously based on whether the guarantee was in the money, but our experience during the recent crisis showed that the utilisation rate is more strongly correlated to age. Excluding this item, the remaining variances were in line with last year and include a 40 million expense profit. This reflects our success in containing operating expenses in the US, not withstanding the significant increase in business volumes. Finally, the lower UK experience profits reflect a more modest level of portfolio rebalancing activity in 2009.

On this slide, I summarised the movement on shareholder funds on an EEV basis, at 15.3 billion - this is 2% higher than the position at 31st December 2008, and 12% higher than the position at the 2009 midpoint. Going from left to right on the chart, you see the 3.1 billion of operating profits. You see a positive short term investment variance of 586 million, reflecting the strong market rebound in the second half of the year, the 235 million one-off IGD hedge cost, taken out early on in 2009 to provide downside protection. A 910 million loss arising from changes to economic assumptions, including a 301 million charge in Jackson for short term credit risk additional allowance on the in-force business which I referred to earlier. Further down the waterfall you see the impact of tax dividends and the 750 million of foreign exchange translation loss.

Turning to our IFRS results, we reported an improved performance up 10% to 1.4 billion, which on an after tax basis, covers our full year dividend 2.2 times. As was the case for EEV it is the results of our life businesses that underpin this strong performance, with an impressive 25% increase to 1,475 million. What you see coming through these results are the benefits of our approach to cash and capital conservation combined with our disciplined focus on the back-book. This is happening across the business and this is why we are reporting year-on-year IFRS operating profit growth in all three regions as shown on the next slide.

The chart on the left hand side of the page breaks out the contribution to the life operating results by each business. Asia has reported an impressive 77% growth in operating profits to 410 million, and now contributes over a quarter of the overall profitability compared to less than a fifth a year ago. Included in the Asia result is the one-off benefit of 63 million, arising from the change in reserving methodology in Malaysia which we reported at the interims. But even without this item, underlying profits are up 50%, reflecting the growing maturity of our book. The contribution to life profits from fee based business is higher by 26 million, and insurance margins are also higher by 55 million. The profit driver analysis which you can find in the packs, show that profits from insurance margins remain the most significant component of the life result in Asia. The IFRS profits of our US business are also higher by 13%, to 459 million, benefiting from higher fee income on separate account business, lower DAC amortisation, offset by higher hedging costs. No breakages were experienced in the VA hedging program during the crisis. Over the cumulative 24 month period to the end of 2009, the movement in VA guaranteed benefits and related hedges reported a modest profit.

The UK also reported an increase in IFRS profitability of 11% to 606 million. There was a reduction in profits attributable to the with-profit business of 114 million due to bonus rate reductions. However this was more than offset by the superior returns achieved on annuity business which were 194 million higher than 2008. Our sources of earnings remain well diversified with the insurance component rising at the fastest rate due to the success of our Health and Protection strategy in Asia. Fee based income is also higher benefiting from the pick up in US variable annuities in the second half of 2009 and the return of customer appetite for unit linked business that we saw in the fourth quarter in Asia.

We remain confident of our ability to continue to grow IFRS profits and to diversify the sources of earnings further. Our confidence is underpinned by the strong growth in our overall asset and liabilities on which IFRS margins are earned. The growth in policyholder liabilities is depicted on this slide. After allowing for the disposal of Taiwan and foreign exchange, policyholder liabilities increased by 22% or 18 billion in 2009. Of this increase, some 7 billion was delivered through operational inflows in the US and Asia; which represents the excess of premiums over claims, deaths and surrenders. As you can see on the slide, in 2009, we saw strong inflows in Asia which are 2.055 billion, are equivalent to 25% of opening liabilities.

Moving on to look at the movement of shareholder funds on an IFRS basis, at 31st December 2009 they stood at nearly 6.3 billion, 24% higher than the position a year ago and 34% higher than the midpoint in 2009. Going from left to right on the chart you see the 1.4 billion of operating profits, a positive short term investment fluctuation of 271 million reflecting the strong market rebound in the second half of the year, a loss of 621 million arising from the sale of Taiwan which has already been reported, a modest tax charge for the year as the rebound in the market has allowed us to recognise previously unprovided tax losses, a profit of over 1 billion which arises from the reversal of the unrealised loss position on Jackson's fixed income securities and then you see the impact of the dividends paid and foreign exchange translation loss.

I would now like to move onto the evolution of free surplus. It is in this area that you begin to see the transformation in the capital position of the Group. At 31st December 2009 the free surplus held by the Group's life and asset management operations nearly trebled to 2.5 billion, relative to the position of the start of the year. This is due to substantially improved operational free capital flows and the impact of the sale of Taiwan. During 2009 the back-book generated underlying free surplus of 2,089 million; which was 0.5 billion higher than the equivalent figure in 2008 and as I said earlier reflects the growing maturity of our business. The back-book surplus comfortably covers the investment in new business of 675 million, which was contained in 2009 by a strategy on focusing on higher return and short payback products and geographies. Market movements, albeit negative, were relatively modest. As we indicated at the time our interims, the sale of Taiwan released 987 million of free surplus and during 2009 a total of 688 million was remitted to Group. You can see on the slide, the proportion of the free surplus that is being held by each business at the end of the year. Some of this will be used to finance cash remittances to the centre in 2010. Our approach here is to remit sufficient amounts to allow the centre to meet its outgoings with a balance held within each business where it can be deployed more profitably. This is an important distinction, and it is for this reason that when we look at our ability to cover our central outgoings including the dividend, we use the operational free surplus generated by these businesses, rather than actual cash remittances; and this is illustrated in the next slide.

Here, I demonstrate our improved ability to support our dividend from the underlying free surplus generated in the life and asset management business, after deducting investment in new business and net corporate cash costs. At an operating level, in 2009 we extracted higher surpluses from the back-book, particularly from Asia and the US, and we have lowered the amount of capital invested in writing new business. Net corporate cash costs of 306 million were higher in 2009, due to higher interest payments and lower tax recoveries and 344 million was paid out in dividends. After making these deductions, we're left with an underlying free surplus of 764 million, which is 2.5 times higher than the equivalent amount in 2008. Our focus on capital has improved further our ability to support the dividend.

For completeness, I am also showing the actual central cash movements during 2009. Here we use actual cash remittances instead of free surplus. Remember what I said earlier that philosophically we require that businesses remit sufficient cash to allow us to meet our central outgoings. Well this objective was achieved in 2009; net remittances were higher at 688 million, despite the lower dividend from Jackson. However, this was offset by a higher contribution from the UK, which demonstrates the considerable flexibility that we have in the management of cash flows. The other items shown in grey relate to the exceptional outflows associated with the sale of Taiwan and the IGD hedge costs, offset by inflows arising from the subordinated debt issuance net of repayments. The chart also highlights the amount of cash that we have at our disposal at the centre, which has been accumulated over a number of years, and which at the end of 2009 amounted to 1.5 billion Sterling. You can therefore appreciate why we manage the central cash flows so that they produce a broadly neutral outcome each year. Our strong preference is to retain surplus capital within the business operations where it can be deployed to attract higher returns.

Turning to capital, our IGD surplus improved to an estimated 3.4 billion, at 31st December 2009, which is equivalent to a cover of approximately 270%. This is before the 2009 final dividend. As you can see, our increased internal capital generation contributed 1.1 billion of the year-on-year increase. You also see the benefits of the proactive steps we have taken during the year to enhance IGD surplus, namely the sale of Taiwan and a hybrid debt issuance. The capital restructuring benefit of 0.9 billion, includes the recognition of future with-profit transfers and other internal capital restructuring. This demonstrates the flexibility that we have as a business in managing our overall IGD position.

My final slide summarises the credit losses recorded within our IFRS results and updates the position on net unrealised losses in the US fixed income book. UK defaults have been minimal in 2009 at 11 million, substantially below our credit default allowance. In line with the approach we adopted at the interims, we have recycled the unused allowance back into our credit default reserves. Impairments on the US fixed income book have continued at a sterling run rate through the year in US Dollar terms, amounting to 630 million 2009. Approximately 80% of these relate to the RMBS portfolio, predominantly on prime and Alt-A book of structured securities. The net unrealised loss position reported at the start of 2008 has completely unwound a net unrealised gain of 4 million at the end of 2009. The threat that this posed to our capital position a year ago has not materialised.

Thank you for your attention. I would like to now hand back to Tidjane.

Tidjane Thiam (Group Chief Executive)

Thanks Nic. I hope that the information that Nic has shown you has left you with a clear picture of the strength of our performance in 2009. I would like now to move onto the acquisition of AIA; the other topic of the day.

This is an Asian story and that is where I would like to start, because the best way to think about the Group's potential in life insurance in many markets is to start with GDP. Forecasting GDP growth in the short term is an industry and is a very difficult activity, but over a longer period of time we have been able in history to be much more accurate in our forecasts. So these are GDP growths over the next 20 years and it paints a very interesting picture. I always say that Argentina and the US had the same GDP in 1900. So making the right bet can make a big difference. So these things matter over the long term. 40% of the increase in the planets GDP will come from Asia Ex-Japan. There is no getting away from it. Global economic growth will be driven by emerging Asia, and interestingly that is anecdotal, but I want to go back on the chart, it takes us back by 20/30 to something like 1870, interesting. So it is not a state of the world that we haven't known before.

As you know insurance penetration in these emerging Asian markets is significantly lower than in the US. So you have a double or treble powerful effect of faster GDP growth, high savings rates compounded by insurance increasing as a share of GDP. So if you want meaningful growth in life insurance you need to be well positioned in Asia. We have performed some analysis of global profit pools for life insurance over the next five years. These numbers are familiar to many of you. What you see from this chart is that total profits from Asian life insurance will be a similar level to the US and Europe by 2014. However, growth will be significantly higher on the horizontal axis, and it will also be more profitable on the vertical axis. But one comment I want to make about this is that I think it gives the wrong impression of Asia, and that takes us to the next chart.

I put there a cross which is the centre of the East Asia bubble. I always emphasise that it is an empty space, so that is not the right way to think about that continent, because it is just a mix of very different places. All you get is a mathematical average of that, and it doesn't mean much. For me to get into meaningful comments, you really need to get to much more granular levels. This has been a very powerful tool in the way we drive the margins, the way we drive capital around the Group, the numbers that Nic communicated earlier, giving you the margins by region in Asia are completely different. It has to drive our capital allocation and the strategy of the Group. If you see the top red bubble, the one I want to focus on is South East Asia which I define as Indonesia, Vietnam, Thailand, Malaysia, Philippines, Hong Kong and Singapore. These are the most profitable markets with the highest growth potential, what I call the sweet spot of life insurance. Let's be clear, I often say to the people internally I'm not really in love with Asia; I'm just in love with high growth, high profitability markets and they're just a large number of them in Asia and that drives our strategy.

If we go back to AIA, I'll just like to remind quickly everybody of the key features of the Company. I'd like to start by saying what I said to the AIG board last week, a very important presentation, that AIA is an excellent company with strong prospects. Those of you who have looked at the company in preparation for its IPO will, I'm sure, have come to the same conclusion. It is a business with 7 top 5 positions across Asia, around 300,000 agents and over 20 million customers. It is the dominant insurance franchise in Thailand, a leading operator in Hong Kong, Singapore, Malaysia and the Philippines. You will see the similarity and the overlap in the comments I've just made about the attractiveness of different countries in Asia. It is by any measure a scale operator with post-tax IFRS earnings of over £900 million ’09 and AIA is a business with a strong in-force book as we know.

I’ve then just given you some more colour on the geographic split of company’s earnings and embedded value. You will see from this chart the significant scale and geographic diversity of AIA’s earnings and balance sheet. You can also see that four markets, including Hong Kong, Thailand and Singapore account for about three-quarters of a business on each measure. Let’s try and look now at what the transaction will mean for the combined business. In business we often use the word ‘transformational’ and wrongly, but I believe that in this case we can use it rightly. I just use as an indicator the percentage of a company which is Asian, whether it’s embedded value, whether it’s IFRS earnings or new business profits. This transaction really transforms the profile and the nature of our company. We will have an embedded value of over £23 billion, IFRS earnings of 2.5 billion pre-tax and new business profit post-tax of £1.5 billion.

The next slide shows you one of the reasons why, I think, this deal is particularly interesting is that the companies are a great fit for one another. In the major markets of Hong Kong, Singapore and Malaysia both businesses have a strong presence and we will increase there our scale advantages for reduced operating costs. Secondly, there are markets and that’s a characteristic of this acquisition where one company is significantly larger than the other. We are almost the mirror image of each other because we’ve competed so hard against each other. AIA in Thailand and the Philippines is several multiples larger than us and we, in Indonesia and Vietnam are significantly larger than them which also makes integration in those cases relatively easy and I’ll come back to that.

This range of complimentary markets is what will make us the undisputed Pan-Asian insurance company. The combined company will be the largest life insurer in every single South East Asian market. Being well-positioned in these attractive markets had been the key driver of our recent success so there’s no change in strategy it’s just a continuation. This will give us an unrivalled platform to take our performance to the next level.

Just a word about capital, it is our estimate that post-completion the IGD surplus of the Company will be around 2.6 billion. A strong capital position with a solvency ratio, we estimate, at 188%. The key ratios that rating agencies look at are expected to remain within the single A range or better, and we would expect to move progressively up that band over the next few years given the earnings power of the new company. It is our intention to retain our current dividend policy, it is important. We are confident that the AIA earnings can support a consistent pay-out ratio across the enlarged group. The new shares issued will be entitled to the 2010 dividend adjusted for the bonus factor. With that I’d like to hand over to Barry to talk about cost and revenue synergies because he will have to deliver many of them; Barry.

Barry Stowe (Chief Executive, Prudential Corporation Asia)

Thanks Tidjane. The combination of Prudential and AIA will result in a business which has lower unit cost and hence higher levels of profitability than either of the companies could have achieved on their own. I would point out that to date we have only assessed synergies related to management expenses. We fully anticipate phased cost synergies of USD 340 million. Approximately three-fifths of these savings will come from eliminating duplication in the two head offices with the remainder coming from within the local operating units. We will act quickly to achieve these synergies with minimum disruption to the front ends of the business. We strongly believe that the dis-synergies from this combination will be minimal. We pride ourselves on being the employer of choice in the region and we feel the new company will be even more attractive to our employees.

I think the best indicator of what you can expect us to accomplish with AIA can be found in the results that we have generated with our own business where we've been driving a specific programme of improvement over the past 3 years. Many of you will recall that we were in this room together for an Asia Investor Day in December 2006. During those presentations we made some specific commitments to you. We made commitments around agency distribution, where we promised to increase the scale and the productivity of our agency channel across the region. We made commitments about partnership distribution where we sought to give you comfort about the durability of our longstanding relationship with Standard Chartered Bank and to emphasise our determination to build new partnerships with other partners. We made commitments about health products where we outlined our intent to significantly increase our focus on these products which are valuable to customers, lucrative to distributors and, because of their ability to drive higher margins, very important for shareholders as well.

We made commitments about our customers and we pointed out that while our customer base had grown very quickly, that there was work to be done in terms of further penetrating that customer base with a additional products and services. Finally, we made commitments about asset management where we talked about the importance of continually improving performance for customers. Be they unit linked customers, retail funds customers or institutional customers both internal and external. I believe it is fair to say based upon the full-year results you've seen today that we have delivered on the promises that we made 39 months ago in this room. Including, as Tidjane said or I think as Nic said actually, as we should all say honestly we should we talk about this as much as we can, we doubled our new business profit which, I think, some of you might not have expected and we did it in the most difficult environment you could possibly imagine. During a financial disruption that none of us would have envisioned when we were hear 39 months ago.

Our disciplined focus on these commitments has allowed us to emerge from the crisis with a business that is stronger that it has ever been and one that continues to improve and one that has genuine momentum. This should give you significant confidence that the synergies that we briefly outline on this slide will be relentless driven and delivered by our team in Asia.

When we were last together at our half-year results which were in August, we illustrated the momentum building in the business by showing you the quarter-over-quarter improvement in our results in some of our most important and most cash generative markets. It's only right that we provide you with an update on our most current results on that same basis. In Singapore our Fourth Quarter was the second best quarter in the history of our company with sales results that were 55% over the Third Quarter and 85% over the Fourth Quarter of 2008. In Indonesia the Fourth

Quarter of 2009 was the best quarter in the history of our company with sales that were 44% over the Third Quarter and 35% over the Fourth Quarter of 2008. In Malaysia, the Fourth Quarter was the best quarter in the history of our company with sales that were 95% over the Third quarter and 72% over the Fourth Quarter of 2008. Finally, in Hong Kong our fourth quarter was the best quarter in the history of our company with sales results that were 61% over the third quarter, and 98% over the fourth quarter of 2008.

Of paramount importance in any transaction of this kind, are strong strategic capabilities and disciplined execution. I believe that our track record over the past three years demonstrates that we are capable and that we are disciplined. But perhaps it would be helpful to share one final example which might provide you with further confidence - and that is the right slide.

In January we signed an SPA for the purchase of UOB Life in Thailand, Indonesia and of course Singapore. We also signed bancassurance agreements for each of those markets with UOB on that same day. By 31st January we had received the necessary approvals by regulators in each market. The next day on 1st February, we launched an entire range of products in all 417 UOB branches in these markets. All of this was accomplished in the space of three weeks.

You will understand that our first quarter results are not on the agenda today, so I am not able to provide specifics on the sales levels we have achieved since launch in UOB. But I can tell you that the results exceed the sales levels that we assumed in the business plan used to justify the transaction.

It has been my view for some time that the combination of AIA and Prudential would create the best insurance company in the world, one with unparalleled prospects for future success. This view is rooted in a very strong strategic and financial case, but it is also heavily informed by my own unique perspective, having been a part of both organisations and having a depth of insight into both organisations.

While Prudential and AIA have been strong competitors for over a decade, the similarities of the two organisations far outnumber the differences. I have no doubt the task ahead of us is challenging, all transactions of this type present great challenges. Equally, I have absolutely no doubt that we will once again deliver on our commitments. Thanks very much.

Tidjane Thiam (Group Chief Executive)

I just wanted to put this one up again, because there are two things I couldn't do today. One was stopping Barry from presenting this. I don't think I have ever seen him more upset than when it was suggested that we move Q4, because he was embarrassed by his Asian results. He was really upset. And two, to get him not to say anything about Q1. You weren't supposed to say, but anyway. So you have got Barry's view now on Q1.

Let's move onto integration. Barry has just talked to you about some of the cost synergies and revenue opportunities. I would like now to talk about the integration of the two businesses at a relatively general level at this point, and just to enunciate a few principles.

The first point and the key point of our integration approach is to ensure that we continue to focus on maintaining the momentum, by that I mean the commercial momentum in both businesses. Because we are all very aware that in a fast growing region, I have in my career very often seen mergers and integration as an opportunity to gain market share. Having done it to others, I don't want it done to us, so we will ruthlessly continue to drive the commercial performance forward, as we have done from Prudential with the results that you have just seen. We will continue to do the same thing with AIA. So an absolute focus on commercial momentum. We understand also clearly the need to retain and motivate the agency force and all the employees, and critically to maintain the strong customer relationships and partnership relationships that we are buying here. I took a chance, my HR Director actually left Saturday thinking that we would sign between now and Saturday. She is in Asia. She has joined Bob Benmosche; they are meeting people at AIA as I speak. I will leave myself tomorrow evening and I will tour the countries with Bob Benmosche, we will go everywhere and hold Town Hall meetings and talk to people, and explain why we believe in this project. Why we think it is positive. Why we think it is going to be successful. We are absolutely ready to hit the ground running on that level. So this will remain on the top of the agenda during the whole period. I will be pragmatic in our decision making.

For example we have decided to run a multi-brand approach. Prudential is already a multi-brand company; we have Jackson National Life in the US, M&G organiser of the Chelsea Flower Show in the UK. We're very comfortable living with old, well-established valuable brands. We think AIA is a very good brand in Asia. We have all the market research on the brand; we like it and we will continue to manage it. We will try to generate efficiencies through middle and back office integration not by trying to gear our sales forces, which is a famously difficult exercise. Every percentage point of growth in Asia is truly valuable and that will be our primary focus.

The 4 comments on the integration; first the Hong Kong headquarters. This is classic merger of overlapping headquarter activities; the way we manage risk will be critical to setting the tone for the whole integration and we are, I think, well on the way of dealing with the challenge. Then you have three markets, and I said that earlier, Hong Kong, Singapore and Malaysia where the two companies are about the same size, these markets represent huge opportunities. Huge embedded value are critical in Asia and we must build there very high-performing businesses. They are also complicated; for instance, in Malaysia we have two businesses each so we, effectively, have to merge four companies. In many other markets, as I said earlier, we have one player which is significantly larger than the other. There we will work to make sure that we add the two together to reinforce the positions in each other's key markets.

Finally in China and India, we have different legal and JV positions. In these large important markets, we will tailor our approaches to maximise our positions going forward.

Another big area of focus for us is the area, of course, of regulation and competition; and I distinguish the two deliberately. We have regulatory approvals and we have anti-trust approvals and the two are separate issues. We have looked extremely carefully at this. I conducted last year a 3-month study. I hired a law firm in each of these markets which gave us legal opinions on the challenges of regulatory approval and anti-trust. We have refreshed this very significantly, invested another 2 months in it this year. This is something we understand and we are very conscious of.

As I speak, Barry gave me the feedback an hour ago; all our CEOs have been brought inside in each country; they have met with the regulator in each country so I now have the feedback from the regulator in each and every country in Asia by noon of Day 1. We are on the ball; we are going to deal with this issue. We are well-positioned in all those countries, well regarded, well are well-connected so is AIG. One thing Bob Benmosche and I will do from Wednesday on, is we will see together the regulator in each of those countries so we are very confident that this is something we can manage. It's been very well discussed, very well rehearsed and we will manage it. The UOB acquisition we're quite proud of because there was regulatory approval and we did sign January 6th, and we did sell the first policy February 4th. I think that gives you an indication, a concrete one, of what we're able to achieve in those markets and in those countries.

Moving on to valuation, we looked at a number of metrics. This slide shows you how the combined Group would be valued compared to other listed Asian insurers, based on Friday's closing price of our shares and the price we are paying for AIA. What this sums up reasonably well, what we are offering to shareholders today, a life company with a fantastic Asian franchise still trading at European multiples.

If we move on to new business profits and this is an important point, I'd like to spend some time on this. This slide also tells you the story of the opportunity for our shareholders because this is a business at an inflection point which is a very interesting point to debate. It is an excellent business with strong franchises, but its performance in 2009 was weak and, frankly, Barry has something to do with that. New business volumes were affected both by the financial crisis and by the insolvency of AIG. First Quarter 2009, volumes were down 40% year-on-year and the new business margin fell by a third. Despite a strong recovery in volumes towards the end of the year, new business profit for the year fell 41% to 570 million.

This low number for a key metric provided us with an opportunity. It can look like a high multiple, if you look at it in a way, but it has made VIP over business more challenging. If AIA's new business franchise had performed as well as ours during 2009, we would not be in this position today. We are at an inflection point and I am confident that we can restore AIA's engine to good levels very quickly for two reasons. Firstly, this is already happening. We met last week in New York with the CEO and CFO; sales thus far this year - remember that their financial year begins in November so we have Q1 is December, January February - have been running at significantly higher levels than in previous years and at better margins. Secondly, we believe that we have the most productive agency force in the region, as Barry had described. Putting all that together, we think we'll come back to a reasonable level at 770 which is not that demanding because the last number before the disruption was 962 so the run-rate is significantly higher than this. We're comfortable with the multiples there.

The deal itself values AIA at 35.5 billion, which represents a price to 2009 year-end embedded value of 1.69 times; a number which is almost identical to the current consensus, sum of the parts valuation of our own Asian business. We think this is a fair price for a great company with the potential for significant value creation in combining the two businesses.

In terms of IFRS earnings, the multiple is 24.7 – 2009 - or 21.1 including cost synergies. As I've said already, the cost synergies are important and we will deliver them and I'm confident that we will exceed them. We're not, however, what we see as a main source of value creation from this deal. In addition to these cost synergies, we estimate that revenue synergies - and I know they're generally discounted but this is a story in the fastest growth area in the world, so I believe revenue synergies matter - after allowing for dis-synergies because we think that there will be dis-synergies in the short-term, will be $700 million per annum pre-tax. The new business value multiple is 25.4 '09, but as I've already explained, we believe there is significant scope to increase that NBP and that the '09 data point is an aberration.

On the next slide, there is a lot of information on structure and funding so let me pick out the main points. The acquisition will be executed by the creation of a new Topco structure which will act as the holding company and acquire of both Prudential and AIA. It will be funded by a combination of a rights issue, an equity consideration of shares in Prudential, mandatory convertible securities, preferred securities and senior debt. The rights issue component will be for a net total of $20 billion or £13.1 billion which is fully underwritten, as you know by now, by Credit Suisse, JP Morgan and HSBC. The final terms of the rights issue are expected to be set at the time of publication of the prospectus. The mandatory convertible will be for $3 billion or £2 billion and will be priced by reference to the closing price on Friday, February 26th - so that's agreed - adjusted for the estimated full-year dividend and the rights issue size.

It will have a 375 coupon, with the lowest strike of 100% of a reference price and an upper strike of 125% of a reference point. It will have a 3-year maturity with no resale rates and a 2-year effective lock up. You can do an NPV calculation, but this tells you that the 35.5 is actually a lower number in terms of NPV. Preferred securities will be for US$2 billion or £1.3 billion and we'll pay 6.25 coupons that is tax deductible. It will be perpetual, non-callable with a 10-year effective maturity and a 1% coupon step-up in year 10. The security will be marketable after 12 months.

The senior debt component will be for a net total of $5 billion or £3.3 billion that will be fully underwritten by Credit Suisse, JP Morgan and HSBC. The bonds will be of 5- and 10-year maturity and the transaction, of course, is subject to a number of agreed-upon conditions including regulatory anti-trust and shareholder approvals. In terms of our anticipated timetable to completion, we expect to publish prospectuses and circular in late April or early May. We intend to hold the shareholder meetings to approve a rights issue and the acquisition in May. The rights issue trading period is due to commence the day after shareholder approval is gained, with the rights issue trading period closing in early June. It is currently anticipated that we will have gained regulatory approval and we'll compete the transaction during the Third Quarter. Following completion, the proceeds and vendor consideration will be released to AIG and Prudential PLC will be the de-listed at the same time as new Prudential is listed and admitted to trading on the LSE.

In conclusion, this is a rare opportunity to bring together two outstanding franchises. I firmly believe that combining Prudential and AIA will allow us to create an organisation whose potential outstrips the already significant prospects the two companies would have had as a stand alone business. We are starting on a fantastic journey together and today is just the beginning. With that I thank you for your patience and now we will take your questions.

Q&A

Jon Hocking (Morgan Stanley)

- Firstly on due diligence, obviously Barry knows the business very well, but how much time and opportunity have you had to do detailed work on that point?
- Secondly, I realise this is about creating a growth business at a low multiple, but can you comment a little bit about how you think the earnings accretion will work? What year do you think this deal will be accretive to earnings both on an EV and IFRS per share?

Tidjane Thiam:

It's been really a 2-step story. We invested, I think it's well known now, a lot of time and effort in this asset last year in the First Quarter. We did a full due diligence; we have access to all the reports. We ended up reaching a different conclusion at the time, our relative size and our relative valuation of the asset expectations of the vendor meant that we couldn't agree, but a lot of work on regulation and anti-trust and the asset was done then. Also, frankly, we had some issues with the EV; that was a big part of the discussion then. Since then they have done a very good job in preparing the asset for the IPO. We have been working on this for, I can say, 3 months.

We have had a lot of contacts at senior levels in the company. We have had access to a large amount of data. We are very comfortable with the EV. We think that before we would have had to take a big haircut on it. We are comfortable with the EV; we've run it under our assumptions and we end up with very similar results. We are comfortable with where we are. We think that we've had really a good look at the asset. Also the benefit of a transaction like that for us where I think we are in a unique position is we know these businesses very well, because we compete with them so closely. Barry could tell you exactly country by country what they sell, what they've done, who runs it, when, how, having been at AIG himself. With a number of other people running PCA being in the same position, so there is a familiarity there which is, I think, unique in M&A.

Accretion; we think that neutrality in 2012 is achievable. We're very confident that with the numbers we've seen we can achieve that. As we get more access to inside AIA we will be able to update you, I think, with more detail and more granularity, but we're very confident that we can be neutral by 2012.

On IFRS definitely.

Oliver Steel (Deutsche Bank)

Just one question, given that my first question was accretion date, it looks as if you may have to sell the Chinese business of AIA, probably the Indian one as well. You're also talking about a Hong Kong listing after completion, which suggests to me that you're getting extra money in post the date of completion on top of the 35.5 billion that you're effective raising for the acquisition. Is that right that you're looking to raise extra money on top of the purchase price?

Tidjane Thiam:

I'll start with China; as you know, you'll know that AIA has a unique position in China. AIG with a 100% owned business; it's the only foreign company in that position. Our view there is that we're going to talk to talk to CRIC to the regulator first of all and understand what their thinking is there. If, in the end, we have to dispose of a business we will. It will not mean for us an exit from China; in any case we're very happy. We spoke to Chairman Dong this morning, the Chairman of CITIC, our partner in China. Very complimentary on the transaction, very impressed, very positive and we like our business in China. We would keep it under any scenario. If we have to sell the Chinese business of AIG, given the kind of multiples that Chinese businesses attract, we don't think that that will be a challenge; if we have to sell it we will sell it, so it's something that needs to be resolved in the coming weeks.

In India there is … I think the historic position of the regulator has been that a foreign player is not allowed to have two separate ventures. You know the numbers; the ICICI Pru venture is well-performing, it's about 12% in market share. It's fair to say that Tata AIG has not known the same degree of success and that is something we're going to have to resolve in talking to Tata and with AIG, but I don't anticipate any particular difficulty. On the listing, Nic, do you want to say a word on the Hong Kong listing?

Nic Nicandrou:

Yes we commented today in the announcement that we will pursue a dual-listing in Hong Kong. At this stage there are no intentions to raise additional equity at the time that we do that.

Oliver Steel:

Can I come back on that? To get liquidity in Hong Kong the dual listing, you will need to issue extra equity, it seems to me. If you're selling China you will get extra money in, one would hope, ditto India. I don't understand why you need a $20 billion rights issue, plus then expect to get proceeds from those three issues.

Tidjane Thiam:

I think if we issue it, it will be really a marginal amount. Try to think about the new company and what its status is going to be as a stock. We're talking about a very different entity here, a must hold stock frankly with a huge Asian exposure pure life player. We may have to issue something, but it will be … in the context of the new group, not the kind of issuance that will make a major difference

People generally in Hong Kong tell you that with between 500 and £1 billion you create enough liquidity for trading, so for that new company that would be a relatively immaterial amount to our capital raising.

Greg Patterson (Keefe, Bruyette & Woods)

Three questions as usual.

- You've a general account there, US style. My understanding is as a US fixed annuity style general accounting; I wonder if you could just talk about the asset quality within that account. We know it's not necessarily invested in US retail mortgage backed securities or something like that.
- The second thing is, Tidjane, you mentioned a month or two ago, about South Korea pulling the foot off the accelerator there. Does that mean you will probably combine the two groups and then sell the South Korean operation; and if you were what sort of money do you think you could raise there?

- As a third point, I know in India you have a particular problem versus your peer groups in that you don't have a fixed formula to increase your stake from 26 to 49. Do you know, has your due diligence discovered, whether that Tata has a fixed formula and therefore, doesn't have an option against it by its partner.

Tidjane Thiam:
On the asset portfolio, I should have mentioned that in my comments because that was also a concern when we looked at the asset a year ago. We know that BlackRock has done an enormous amount of work on the asset portfolio and we've got every assurance that it's high quality. I'm looking at David Belsham here; it's more akin to our asset portfolio in the UK in terms of rating and quality of the paper than what we have in Jackson, so it's not a source of concern. Again, it's been really scrubbed clean and there have been a lot of transfers back to AIG so we're getting something of very high quality. It's one of the many benefits of the IPO process. Frankly it's been for us very, very beneficial.

South Korea; we have a turn around programme in South Korea which is doing well; Barry do you want to say a word.

Barry Stowe:
South Korea is a complicated market, but it's not a market that we think, we cannot make money in; we just need to be very diligent and disciplined about how you approach the market. Obviously in most markets where we're present, we love the macro economic environment, the regulatory environment; all elements of the market work from our perspective and we drive for growth. Being number 1 is better than being number 2 and number 3; that is not the case is Korea because of the complexity of the market. There are elements of distribution there that are very difficult, from our perspective, in terms of as we view everything through this value over volume lens.

Bank distribution; honestly, is quite complicated in Korea despite the nature of the regulatory environment and how it works. Independent distribution there, non-tied agency, is complicated because the custom in the market is to advance commissions on sales, so that creates not just financial stress on products, but creates opportunities for fraud and it's just not a good dynamic. It's not a good sustainable way to build an agency based business. Tied agency however, does work there if you do it properly and it's disciplined, and in fact average case sizes in the market are high and you can sell protection in the market so there is latitude in the market to build a good business.

What we really say about Korea is that we're focused on the things that make economic sense. We are not focused on market share, because it's more than perhaps any place else in the region, market share for its own sake will just lead you down the path to destruction. In terms of combining the two businesses and then selling them off, no I think we need to get our hands around how what we're doing in our business would impact the AIA franchise there and then take it forward. There are some very good people in the AIA business in Korea including the guy that runs it, a guy named Sang Lee.

We've got some work to do, but we wouldn't completely write-off Korea; you just have to take a disciplined approach, Greg.

Tidjane Thiam:
And your third question was on Tata; we don't know the nature of the agreement between Tata and AIG, but it will be something we'll find out about in the future, but fundamentally we don't anticipate any difficulties. There are already conversations as far as we know between the two parties about separation, so that shouldn't be very difficult.

Andy Hughes (ICAP)
A couple of questions if I may.

- First of all on the asset risk; is it true to say that AIG has a lot more traditional non-linked products in its portfolio and therefore takes on a lot more credit risk, not just in the US fixed annuity board, but across most of the product types? How comfortable are you with that, particularly in the uncertain outlook for the market for credit that we're in today.
- Second question was on the investment linked lapses that you've seen within your own portfolio. Clearly you've made a charge in the year which is equivalent to the experience variance, obviously there are very long-term contracts so how confident are you that you won't have to make another very large experience variance relating to the adjustment you've made this year?

Tidjane Thiam:
Thank you Andy; on the credit risk actually as I said, the portfolio is really of very high quality. We've had a lot of credit migration and when you look at where they were in November it's really mostly double A, single A, very from memory such a few percent of triple B, maybe 8 or 9%. It's a really high quality portfolio.

Andy Hughes:
Does this take away capacity for credit risk elsewhere in the group, or can you still continue to sell UK annuities and US fixed annuities.

Tidjane Thiam:
That's a good question; no it doesn't. We think - I've got my CRO here - but we looked at that relatively closely. What you have is a mismatch; you have a maturity gap there that needs to be managed proactively because of the nature of the products that we've sold, but fundamentally it's not going to limit us elsewhere in the Group we don't think. On the investment link lapses, they're mostly in Korea as we've communicated, but Nic do you want to take that?

Nic Nicandrou:
Yes, we've looked at both the experience and the need to change the assumptions. Actually the experience that we saw in the second half of the year confirmed the position that we took in the first part of the year, particularly in places like Korea. We were quite prudent in the establishment of those assumption changes. We assumed that once a particular policy goes into a premium holiday that it's effectively popped; it won't be restored. We took the opportunity to make one or two changes elsewhere. I'm confident on the basis of what I've seen and I've looked at this for the first time and that we're in a strong position.

You have to also bear in mind that you're talking at the end of the day relatively small numbers in the context of an embedded value in Asia that is around 5 billion, so less than 1%. I believe the embedded value is robust.

Nick Holmes (Nomura)

I just wanted to go back to the EPS neutrality aim. This is obviously very, very important and I wondered if you could help us to understand a little bit better the scale of the challenge that you have by perhaps telling us what level of EPS dilution, for example, might be acceptable to you in 2011. I don't know if that's a relevant way of approaching the subject, but some sort of idea of the scale of the challenge that you feel lies with you.

Tidjane Thiam:

I think what you need, if you want a number, you're going to need something like - you're about 450 million away pre-tax from EPS neutrality, so what you're trying to do is to add 450 million over '10, '11 and '12 as a whole. That gives you a sense of the numbers we're talking about here. We announced 340 pre-tax, which you can convert into 250, then you've got another 200 to find over the next three years.

Raghu Hariharan (Citi)

Three questions;

- The first one was around the change in stance between today and '08. Obviously you looked at the business in '08 and you made a decision this time around; I'm just wondering what the change is in terms of what you've seen. It doesn't seem to be valuation, but correct me if I'm wrong, so what really made you make up your mind?
- The second one is around AIA's earnings. I know you showed a slide showing the amount of slack that is their new business products; do you see any similar slack in their earnings that you can work your magic on?
- Lastly, on rating, you said you're aiming for an A rating or higher end of the A rating; I was wondering how that affects Jackson's business.

Tidjane Thiam:

The change versus '08; I think there are changes on both sides, on the AIG side and on our side. I'm sure many of you saw the report, the estimated EV was US$25-40 billion, and that was an EV, if I remember correctly at 31st August 2008, so it was an EV pre Lehman with no roll-forward, so part of the problem was that everybody was trying to price the asset that you just didn't have the information to do that, because when we were in January '09 we all know what happened between August '08 and January '09 and you just had no visibility, you didn't know. I think we got the roll-forward something like in late February 2009. That was the first difference and I think the second was the seller's expectations, because we didn't wish to pay more than a multiple of 1 of that EV. If I remember correctly I think that AXA was worth 20-something billion Dollars at the time, so there is just no match between supply and demand. We were worth £6 billion, I remember vividly. The other thing that happened since then is that we've more than doubled; more than doubled, and their EV it's 21.054 billion in Dollars, so we've gone 5 billion below the bottom end of the range that they indicated, so that point moved and we moved up too, so the conjunction of the two plus the change of parameter. Greg, I saw you mentioning Philam; Philam is in this deal, so that's a big difference.

We can give you some numbers later, but in terms of being clean, because it used to have a negative spread issue, when we look at it now they change the assumptions and when you go around business by business, because we have your report, they've corrected most of the problems that were in the underlying books, so we're getting really a clean asset. That gives us comfort, better numbers, a cleaner asset and a better valuation for us and an ability to acquire it, which frankly for us is a good opportunity. Back to the earnings power, we think it is very, very strong, but what we’ve said about the productivity is real. Actually AIA believes that too. When I talk to Bob Benmosche, one reason why they’re going to hold 11% over a new company, that’s not an insignificant amount; they actually truly believe that there is more value in this position than in the IPO. They would not have made the decision otherwise. So they are coming in thinking that yes, we can absolutely generate … they know how we’ve competed. Again, two very good companies, but the difference is between the agent populations are significant. Some of you came to Jakarta, have seen how we train people, the quality of our training, the investment that we make in educating the sales force, so that’s a reality and think it’s going to … I don’t know if it’s Barry’s magic, but I think it’s going to produce some impact in the quarters that come and we’ll show you that performance quarter after quarter. I don’t know if you want to add something on that.

Barry Stowe:
I would just re-emphasise the agency productivity, because we’ve always felt intuitively, we thought there was a lot of evidence that our agent productivity was materially higher than there’s but without getting real detailed numbers it’s difficult to say. During the course of this process we were able to get information which allowed us to do some benchmarking and it showed that in every market, save for Thailand, in fact we are materially more productive and efficient in our agency force than they are, so there’s some real value to be created there.

Tidjane Thiam:
This is not a negative comment about AIA. We’re going to … it’s all very friendly, but I think it’s just the fact that the two companies have different ages and the population of agents is different and that translates into the numbers directly.

Nic Nicandrou:
On ratings, we have structured the financing of the deal in a fairly conservative way. At the back of our minds we wanted to make sure that we remained on the right side of the line in terms of some of the rating agency constraints on leverage and fixed-charge cover. Of course, as we deliver some of the synergies and as the operational performance of the asset picks up later, then we will create some headroom within that.

As to the impact of how the rating agencies will evaluate it, of course it’s not just on the metrics, it’s on a number of other factors and conversations are happening as we speak. In relation to the impact for Jackson, to a degree that will be judged by reference to the overall rating position of the Group, but also down to its own capital position. Jackson finishes the year with an RBC ratio of 417% with only a very modest reliance in that 417% from permitted practices. We’ve got a permitted practice only in relation to the SAP 86 derivative item contributed around 19 percentage points, so Jackson’s position is strong on a standalone basis.

In terms of the element of the business that is rating sensitive, it’s only the institutional business and we’ve already said that we have little appetite for that type of business.

Tidjane Thiam:
I should only mention that you can expect some multiple expansion as the growth materialises and we show our ability to grow and that will help.

Marcus Rivaldi (Morgan Stanley)

- With the new HoldCo being set up, does that open [the door] with obviously Solvency II on the horizon, does that set up the Group for some wider legal restructuring with a view to Solvency II and moving blocks of business elsewhere and maybe outside of the scope of Solvency II.
- Secondly, on the other securities that you're going to be issuing as part of the financing package, are they going to be issued out of the new holding company? I'm assuming the convertible and senior issuers for that will do and the Tier 1 security as well. Finally, all your existing securities have got issues out of Plc at the moment, are there any plans to move those up to the new Topco or to ensure that relationship between shareholders and fixed inc. investors is maintained under the new Group structure.

Tidjane Thiam:

On the holding company on Solvency II, maybe a word on Solvency II, it' always an interesting topic. Our view remains at what I've said at previous results, but really it's a moving target, a lot of discussion, we don't really know where it's going to land. We are extremely active in the lobbying and all the debates on the various items. We'll see where it lands. But clearly what you said is an option, so it gives us optionality, and possibilities we didn't have before, so it's something to keep in mind.

On the securities, on the whole I think they will be issued at HoldCo and after the creation of a company we should move the other securities to the same level.

Sorry, was there a third question? No, that was it; okay.

Andrew Crean (Autonomous Research)

A couple of questions.

- Could you give us a bit more detail about the cash generation of AIA, what's coming off the back book, how much is being reinvested for new business, IRRs and paybacks?
- Secondly, just a devil's advocate question; you're issuing paper at 1 times to buy a company on 1.7 times and a company which you're clearly outperforming in its own market; what's the rationalisation for that?

Tidjane Thiam:

The cash generation, I think we will give you … you see what kinds of disclosures we give on that, so I hope that we will be able to give you more granularity. Based on the numbers we've seen, the business is upstream about US$1 billion every year, but that is not for cash generation, because we know that there are a number of regulatory issues that are such…the cash is trapped in a number of places and that is something, interestingly, which is linked to the regulatory question, because we think that if there is the normalisation of the status of the company in a number of geographies, there will be opportunities to upstream the capital that's locked in. I've got very good reason to believe that, and particularly in [Thailand] significant amounts, so it's another upside of this deal. Honestly, I don't have the answer on the back book and the investment, but we can look at it and come back to you.

On the devil's advocate question, I talk about optionality when we talk about Solvency II. For me that's a key aspect of this deal; it opens options that we didn't have before. In terms of the Group we believe we haven't put that in our case, but we believe that there will be rerating. We believe that the franchise of the brand is very valuable that we are acquiring and that applying Barry's magic to that franchise will generate very, very good results. No really, because they have great footprint, they have great distribution; it's very, very attractive to us. Another area where there'll be gains is asset management. We have a good asset management operation in Asia, we have a very good, extraordinary track record of outperformance and we believe strategically that asset management in Asia is the new frontier. It's something we've been working on internally and that's also going to allow us to accelerate our development. The market of the high net-worth's in Asia is there up for grabs, growing very fast, so there are many, many options in here that we can pursue, which I think will drive value.

Johnny Vo (Goldman Sachs)

Just a couple of questions.

- In terms of the target IRR on this investment, can you provide one?
- The second thing is just historically Pru has operated on a three-pillar basis. Clearly the weight of business in Asia now, where do you stand in relation to that strategy and how committed are you to the other two businesses?

Tidjane Thiam:

I think the IRR, let's call it high teens; and this is without any rerating, any multiple expansion, so we think it's attractive. This is really based on conservative assumptions; it's a very unique opportunity. Again, a lot of that links to the nature of the two things you're bringing together, very complementary; it's a perfect fit, you can merge the number 1, number 2 in insurance in Asia, it's just a fantastic opportunity.

The three-pillar, the growth is going to look quite different. We're going to get a lot of IFRS earnings that we don't have today coming out of Asia. You're going to get cash and even more so once we resolve all the capital fungibility issues, etcetera. After that, the UK. I have always said that it was a source of capital and cash and that it supported our rating. I think the first two remain true and the third one to a certain extent, so that doesn't really change and the US is a very good business that is doing really very well, so in the short term I don't think there is a change to our approach to those geographies and our need to be present.

Marcus Barnard (Oriel Securities)

- Just going back to the antitrust issue, can you say if you anticipate being forced to make any disposals in any geography or product line, because I take the point that you made about India and China and the comments you had from Slaughter and May, but do you anticipate any disposals of geographies or product lines?
- Secondly, on agent retention, are you anticipating any increase in agents leaving as a result of this deal? Maybe put that in the context of when you actually start to merge the operating entities and perhaps you could give more detail about what you're planning there, because you seem to imply that you're going to keep them as separate businesses.
- Thirdly, rather [techie], the 5 billion of debt, what sort of interest costs should we put on that, because I realise it's five to ten years, would 7%, 8% be a suitable figure?

Tidjane Thiam:

Antitrust, as I said, the only two countries where there is an explicit antitrust approval are Vietnam and Korea. In Vietnam the regulator takes actually a relatively broad approach to those questions. They don't just look at market share; they look at the intensity of a competition, they look at whether there is growth or not, and there is not a growth regulator who will be, if you wish, less sensitive to market share because he can convince himself more easily that there is actually competition. They look at barriers to entry and there have been quite a few new entrants in Vietnam recently who have done very well, so general analysis of the environment indicates that the regulator should be relatively not bothered by high market share. We're already at 40% in Vietnam and that has never created any issue, because then they also look at it by product category and then the numbers are different.

In Korea given the positions we have, that's a problem we would like to have, but that we don't have. The addition of the two companies, number 12 and number 16, not exactly a threat in the Korean market. In the other countries, as I said, we have good relationships, we are going to look … Singapore is very sophisticated, they really will look at the position product by product and we think that overall we should be okay. Really, that's the only issue we've had and that's something we've discussed intensively with AIG, it hasn't shown any hotspots other than India and China that we've already discussed and that's linked to legislation really, not to us. The synergies, agent retention, Barry, do you want to take that?

Barry Stowe:
I think the reality is that we'll actually be able to improve agent retention, because one of the big issues that the AIA agency force has been facing is the uncertainty around their parent company and the effect that has had on consumers' perspective of their products. There has never been anything wrong with AIA. We talk about the latitude to improve efficiency and so forth, that's all real, but the reality is they're one of the largest and one of the best agency distribution platforms in the region; they've always been very successful. The big issue that has been holding them back are issues that in a lot of respects should be on the agents' control.

This transaction brings closure and certainty; it makes them once again part of a very large and financially stable and well respected global financial services group, so the reality is there is lots of upside. The intent, again, the disruption that would be caused by trying to slam two sales forces together in the same office on day one, we absolutely have no intention of doing that. The brands both have value, so in most instances we'll be running both brands, so from the agent's perspective, not that much will change other than we think probably do things over a relatively short period of time to improve overall our ability to select agents, recruit new agents, train them, better manage the agents we have to higher productivity that's good for those agents, because they make more money. That's about something that will drive them away, that's something that will drive them further in, so my view is there's a lot of latitude to improve the situation that AIA has been struggling with over the last 15 months.

Tidjane Thiam:
It's 5% on the debt.

Moderator:
I'll hand back to Tidjane to wrap up.

Tidjane Thiam:
Thank you very much. I know it took you a bit by surprise today, so sorry for the short notice, but we felt that the topic warranted it. Again, we are really delighted with the results we've had. We think that if M&A is right, I think we've earned that right from our delivery in 2009. We want to be judged on our results, we are thrilled to have the opportunity to acquire AIA, we are convinced that we will generate superior shareholder value, so we'll see you again in this room in the coming quarters and half years and years to update you on our progress, so thank you very much.