Prudential plc

Transcript of Presentation to Investors and Analysts

17 May 2010

PRESENTATION

Harvey McGrath (Chairman)
Introduction

It has been a truly extraordinary ten weeks, a very busy ten weeks since the presentation on the 1st March. The executive team has met over 60% of our investor base, has held a large number of meetings with Prudential and AIA employees and spoken to all the relevant regulators and government representatives. It has been an extensive programme, sometimes challenging but always constructive. I do not need to say that there has been a huge amount already written and said about this transaction, but today it is our turn to set out the full position to all of you. So we have rather a lot to cover this morning with an update on the transaction, the highlights of AIA's results in IFRS and EEV, an overview of our execution and integration plans, update on the first quarter performance of the businesses and of course the terms of the rights issue. So as a heads up this presentation is going to take just over one and a half hours and we will then obviously want to take your questions.

First, however, let me remind you why the board is pursuing this transaction and why we believe it will generate substantial and sustainable value for our shareholders. AIA is the largest pan regional insurer in what are the fastest growing, most profitable markets in the world and we have seized a unique opportunity to acquire that business.

The combined group will be the number one life insurer in seven Southeast Asia markets. We will have the most comprehensive distribution platform in the region and more importantly we will be the most profitable life insurer in Asia. And as you will see that profitability not only grows strongly in the short term but continues to grow in the medium to long term as economic growth and demographic change drive secular growth in incomes, savings and product penetration which will create materially larger markets. And it is the significantly enhanced and unrivalled access to these growing markets, markets which represent the life sector's only secular growth opportunity which this combination so powerfully unlocks and assures.

The board of Prudential believes that this opportunity will ensure that Prudential shareholders can enjoy decades of profitable growth. That it gives us the capital strength and the strategic flexibility to unlock further shareholder value going forward and that the customers of Prudential and AIA will benefit from having a world leader offering them products and services of the highest quality to meet their needs. Yes, this is an unprecedented combination in terms of scale for the sector, but we believe the opportunity is unprecedented and the board fully recommends the transaction as the right step for the company.

Could I say in terms of the Board, a big thank you to our non executive directors for their exceptionally hard work over the last three months. They have insured that we

have conducted the most robust and thorough process in terms of the review of the transaction. The board is the custodian of shareholder value and we have been very rigorous indeed in our assessment of the plans and assumptions on which this combination with AIA is based.

Let me now pass you to Tidjane, Nic, Barry and Rob to expand on the value opportunity and as importantly explain why we are so confident that it can be successfully exploited.

Tidjane Thiam (Group Chief Executive)
Strategic rational and shareholder value

Thank you, Harvey and good morning everyone. This is a very important moment in the history of our company and we are here this morning to speak to you with transparency, honesty and humility. You have had to live with a relative information vacuum over the last 11 weeks since our first announcement on March 1st. So after Harvey I would like to thank you for your patience.

I am glad to be able to share with you today why we believe this is an attractive proposition for our shareholders. There are four questions that really matter and I would like to address them in turn this morning. The first one is does this transaction make sense strategically? Second, does this transaction make sense financially for shareholders? Third, do we have the operational skills to deliver the expected synergies? Four, will we be able to integrate the two companies successfully? I will cover strategy and value mainly, Nic will present the financials and as you would expect that is by far the longest section this morning; Barry, the operational aspects and Rob the integration. After that we will as usual answer your questions. The presentation should last about an hour and a half so please sit comfortably and that is the main reason why we didn't hold this at Governor's House.

Our job is to deliver value to the shareholders. We believe this transaction will create more value than holding Prudential shares on their own and more value than holding Prudential shares and the shares of a post IPO AIA. Those are the benchmarks we need to beat. Why do we believe this? There are four main reasons. One, our shareholders will keep the Pru and all its existing upsides thanks to the mechanics of the rights issue. They will capture 100% of the value that AIA's recovery will generate. They will capture 100% of the value of the synergies between the two companies and they will benefit from the superior growth and returns that is accrued to the leader in Asia markets and as we call it inside Prudential, the leadership premium. I will come back to that later.

How would you be able to assess how we are doing? We have set a number of clear targets across what we see as the key metrics. We have managed our business with a balance across EEV, IFRS and cash. It is only by driving up all of these measures in parallel that shareholder value can be delivered in the long term. This is the logic that has served us well and we shall continue to apply it to the new company. So our objectives are to more than double the combined group's Asian new business profit to £2.8 billion by 2013; to a least double the combined group's Asian IFRS operating earnings to over £3.26 billion by 2013; to upstream US$1 billion of capital per year from AIA businesses and to maintain our dividend policy. The return on invested equity should be in the range of 9 to 10% by 2013 and will continue more importantly to grow strongly thereafter. This company will have a number of attractive characteristics, high NBP growth, high IFRS growth and strong cash profile; quite unusual, if not unique in the life sector.

We have worked closely with the AIA team since March 1st and as a result we have been able to increase our synergy target as shown at the bottom of this page. Revenue synergies are now $800 million of pre tax new business profit and that is net of the synergies. So the gross synergies are 900 million. So $800 million of pre tax new business profit up from 700 announced on March 1st. Cost synergies are now US$370 million per annum, up from 340 million announced on March 1st. So

those are the commitments we are making today. What I would like to do now is to talk about the valuation creation in this transaction and some of the upside we see here and explain in more detail why these are the right markets to be in and why the combination of Pru and AIA is the right one from a shareholder value perspective.

So let's start with value; any discussion of value has to start with the price you pay. The face value of the consideration we agreed was $35.5 billion which had at the time of signing a net present value of 34.6 billion as shown on the left here. This is the price we look at. When we agreed those terms, they were based on an embedded value as at November '09 of US$21 billion. So we bought the company and all its profits since November '09. Today we have restated that number under EEV principles to 22 billion and Nic will take you in detail through that movement from 21 to 22. The NPV of the cost synergies is US$2.2 billion as shown here and if you assume a return on the embedded value of 12%, which is not very demanding, the 2013 EEV would be US$36 billion. It was also clear when we agreed the terms of the transaction that the 2009 new business profits of AIA was not representative of the underlying strength of that franchise and had been very much depressed by what we call the AIG events.

Our conversation with AIA management and access to Q1 data confirmed this but we simply were not allowed to talk about it on March 1st. The AIA business was and is recovering rapidly and taking into account revenue synergies and reasonable market growth assumptions this franchise will achieve at least US$1.7 billion of NBP by 2013 and I remind you that in '08 it was at US$1 billion. Applying a multiple of 15 times it would reach an overall appraisal value in excess of 60 billion; US$60 billion by 2013 an upside of over 79% over the price paid, which on this new EV already goes to 1.5 from 1.7 that we paid. So this is only possible because we are buying the right asset at the right time.

Let me now look at this on an IFRS basis after an EV basis. There are numbers that will drive increased profitability under IFRS. We have a high proportion of regular premium products; the underlying net flows and the growth of liabilities in the combined Asian business which ultimately drives IFRS profits are very strong. In addition as we change the product mix, as we intend to do of AIA, towards health and protection, we will see an increasing amount of underwriting income, underwriting insurance income as opposed to spread income and fee income as we have seen for Prudential in the last three or four years with great results. And finally we will benefit from the impact of the cost synergies in the IFRS numbers. As a result we expect a rapid increase in IFRS operating profit from Asia to achieve a number in excess of £3.26 billion by 2013 and we anticipate a return on invested equity in the range of 9 to 10% by 2013. So we believe this transaction is attractive on both an EEV and an IFRS basis, but over and above these targets, there is more value in this transaction including portfolio rationalisation, capital management and additional synergies.

Firstly portfolio rationalisation; we have always applied stringent value, growth and capital criteria to the businesses. This is what led us to exit Taiwan last year—I am sure you all remember that—despite its significant new business contribution and despite the fact that it was in our core market of Asia. This is why we closed Japan's new business earlier this year. This is why we stopped writing GICs in the US. This is why we closed the lifetime mortgages in the UK, so this applies across periods, across geographies. We are always very demanding in terms of returns and growth of our businesses. And our belief has not changed. For those who doubt it this transaction is not about size it is about value. We don't want to be big, we want to

be good. So we will run the new group for value not for size, very clearly. And the size of the new group means that it is much less dependent on each of our fixed individual companies, which gives us great strategic flexibility to create more value for our shareholders. Some of the disposals are mandatory as in China where we have been told that we would not be allowed to keep AIA's 100% ownership structure and the embedded value of this business is at $1.2 billion, you can draw your own conclusions. Other disposals will be voluntary and judged by strict value criteria, as ever. Any proceeds will be used to reduce the AIG dilution, pay down the debt or return to shareholders.

After portfolio rationalisation, the second important area is capital management. In the short term there is scope to reduce new business strength in the AIA business as we have done at Prudential. Our new business strain in Asia is 20c to the dollar. AIA's new business strain in Asia is 47c to the dollar. The new business strain of AIA in Asia is $982 million. That number can be significantly reduced giving us quite a bit of head room in terms of cash and capital management. Nic will show you later that there are US$4 billion of free surplus. Building on our strong relationship with regulators, our new starting level of IGD surplus—now at £5 billion—our history of strong capital and balance sheet management, we would look to release some of that surplus over time.

And finally there is scope for further synergies. One example is the area of asset management where AIA has a superior investment track record in fixed income and Nic will go over that later. And where we can look to expand Prudential's retail fund management business which we believe is one of the key growth frontiers in the Asian market and use that capability to succeed as we have done in the UK with M&G. The cost and revenue synergies presented here, 800 million and 370 million are all supported by granular actions and plans, country by country, and have been rigorously verified by third parties, by our Group Audit Committee, by KPMG our auditor. So we have a high degree of confidence in achieving them. We believe that as the two companies are integrated and the teams work more closely there will be further cost and revenue synergies identified and we will update your regularly on those.

So to summarise our views, we believe that: 1) Significant value will accrue to the shareholders of the new company as we believe on these commitments and 2) there are additional sources of value creation in this combination from portfolio rationalisation to capital management. Now I would like to say a few more words about the markets where we are operating.

We focus on Asia because we like to be present in high growth and high margin markets. When you look at growth, when you look at profitability, we believe that Asia is the most attractive region in the world in our industry. We all know the story of the growth of the Asian life industry which has quadrupled over the last ten years as shown in revenue, but the important question as ever is what will happen in the next ten to 15 years. That depends on four basic drivers: it is GDP, demography, income and savings. I am going to talk about GDP, demography and income this morning. You will find data on savings in the appendix of the report along with individual country sections that we have prepared and which we hope you will find useful.

Starting with GDP, this chart sets out the consensus estimate of GDP growth up to 2013. That will not surprise you. Over that period Asia ex Japan is forecast to account for almost half of the wealth to be created in the world. This means that

GDP in Asia ex Japan would increase eight times compared to 2.6, say, three times for the rest of the world a very meaningful difference. But let's look at demography.

As Asian economies become wealthier, the 40 to 65 year old age group will become increasingly important for our business. This is the time in life when incomes peak and when preparing for retirement becomes important. Put quite simply the 40 to 65 year olds have a strong appetite for our products. As this chart shows, this demography group across Asia is expected to grow by over 200 million individuals over the next ten years; 200 million individuals over the next ten years. You can see in India and in China and emerging Asia how significant this is going to be and to put it in perspective, we have talked many times about the 78 million baby boomers retiring in America. It is considered a huge opportunity and there are huge opportunities in Asia as well. This increase in a group that has a high propensity to consume our products, is a significant driver of growth and penetration. So let's now look at income.

Here we are measuring the growth in the middle class, which is defined as those households with incomes between 5,000 and US$25,000 per annum. We are taking here three countries in emerging Asia; Indonesia, Thailand and the Philippines, which all have large populations. Well 21 million households will enter the middle class between now and 2014, this is four years; 21 million households. This represents an increase in overall income in this segment alone of almost US$200 billion; a huge opportunity. The new company will have the largest sales force in each of these markets and we will see the same phenomenon take place in China and India, where the growth in the middle class represents 2.9 trillion of incremental income, US$2.9 trillion over the same period. The new company will be the undisputed leader in emerging Asia and will be a leading foreign player in both China and India.

So combining all these structures—and this is an important page—our target market measured by life insurance premiums are set to grow by two to four times in the next ten years. As shown at the top of the chart in the red bubbles. On the left the Asian powerhouses of China and India, shown in grey, are huge countries with over a billion people in each. Average growth rates are expected to be 15% per annum, which means that these markets will quadruple over the next ten years. The largest countries will also be growing the fastest. Then we have emerging Asia in light blue which is a part of Asia we have always talked a lot about, which combines Indonesia, Vietnam, the Philippines, Malaysia and Thailand. It will grow by between 2.5 and almost four times. Within Asia this is a key area and a set of very attractive markets.

Even after the rapid growth expected in India and China and emerging Asia during the next decade, penetration rates shown at the bottom of the page will still remain low in comparison to any other major region of the world and will therefore continue to provide significant headroom for growth. After that period of extension, China and India will be at 4%, emerging Asia at the still very low 2.4%. Hong Kong, Singapore at 9.6% and those penetration levels still provide room for growth. Hong Kong and Singapore are both developed but not mature. They will continue to grow at a healthy rate and I will come back to that in a moment. And finally you can see that developed Asia in yellow here, with the exception of Japan of course, will still represent the higher growth potential than the West by a margin.

So looking in more detail now at Hong Kong and Singapore which are key to the valuation creation from this transaction; these markets are more developed in comparison to many others in Asia. However, there is very good reason to believe

that they each have significant capacity to continue to grow at a very healthy rate. Economic growth is robust and you may have seen recently that the IMF in its world economic outlook revised the growth predictions for Singapore from a modest 5.7% to 9% for 2010, so very strong growth. Savings rates remain high and there are strong tax incentives in place in Hong Kong in particular. There is a considerable market for health and protection. You can see it at the bottom on the left here, given the high percentage of out of pocket health spend as shown here and the low level of medical cover, 3%. Both Hong Kong and Singapore play central roles in the region as financial hubs and therefore see considerable net money inflows, including from mainland China. As you will see later in Q1 2010 Prudential new business growth in Hong Kong and Singapore was 48% and 50% respectively. AIA growth in these markets was 13% for Hong Kong and 35% for Singapore, to us a clear indication that these markets are not mature.

So there is no doubt that there is plenty of growth available in Asia, the question is will Prudential be able to capture it? Historically our businesses in emerging Asia, Hong Kong and Singapore in total have grown strongly and faster than the market as you can see on the left here. Even in a context where those markets themselves were experiencing very strong growth. Our ability to grow faster than the market in Asia is well established. So good growth but what about margins?

The markets of emerging Asia—Hong Kong and Singapore—are highly profitable. There are structural and behavioural reasons why these high levels of profitability that you can see on the left here, 78% margin in emerging Asia, Hong Kong and Singapore, 50 in China. These are very high levels of profitability by any measure. There are structural and behavioural reasons why these levels will continue and I would like to discuss four areas: the penetration, the distribution, the product mix and the regulation.

Starting with penetration; a key characteristic of under penetrated markets is that growth is supply driven. The main limit to growth for a company is simply its ability to make a product available to first time buyers through the scale of distribution. Selling to first time buyers also means that every time you sell, you are expanding the market itself and also creating loyal customers with the opportunity for repeat sales, something we are very good at. 31% of Prudential's APE in 2009 was from existing customers. Barry will elaborate on that later. So to take an example like Vietnam where Prudential has a 40% market share and where penetration is 0.7%, every time we sell a policy to a first time buyer, we are creating the Vietnamese insurance market itself.

So often when people ask us what is the market growth, we are tempted to answer well it is going to be a function of our ability to sell because we are the market. And the faster we push, the sooner we push, the harder we push, the bigger those markets will be, the more money we will make for our shareholders. This is a crucial point to understand. We are often asked if to grow we need to take market share away from others; the short answer in under penetrated markets is no. Growth is dependent on your ability to distribute. Lowering prices will not bring you any additional business. In such markets there is no incentive for price based competition and hence margins remain high.

Moving to distribution; the agency model means that most of the distribution is proprietary. You make the best returns in life insurance when you control both the manufacturing and the access to the customers. In Asia margins are higher because the insurer both manufacturers the product and controls access to the customer.

Product mix is another factor driving profitability. There is a clear appetite in Asia for regular premium products. These products are more profitable and over 90% of both Prudential and AIA business, new business, is regular premium. And finally in our experience governments recognise the roles played by the industry in channelling savings into investment to support long term economic growth as well as providing socially useful products such as health and protection. As a result the environment is supportive. I do not see any of these factors changing dramatically over the medium term. So in a nutshell, Asian markets are the right markets.

Now let me explain why we believe this transaction brings together the right companies. AIA is a leading franchise in Asia and they were historically the regional benchmark. To be honest Prudential's early strategy and success in the region was in many ways to emulate AIA. The AIA brand is very powerful and to many in Asia, in Thailand for example, is simply synonymous with insurance. It has built significant multi distribution capability. It has a large back book that will drive earnings and importantly cash flows. AIA has strong ALM capabilities and finally its balance sheet has been prepared for an IPO. All the work we have done in confirmatory due diligence since March 1st has confirmed these findings and these views.

So putting AIA together with Prudential, brings together the only two companies that have been able to establish themselves as pan regional players in their own right creating what will be the undisputed leader in the region. This slide shows you life premiums on the horizontal and the number of top five commissions on the vertical and show you the uniqueness of the company—the two companies position. We believe that there is a leadership premium in Asia in terms of higher growth and returns that will drive shareholder value.

Nowhere is this more true than in the key area of distribution which as I have explained is the central point in capturing growth in Asia. With this transaction we will more than double up in terms of agents in many of the key markets. We will increase our scale dramatically so that the combined agency force will be over 550,000 strong. In addition, as you can see on the far right here, it is only one bar, but it is really important, we will also double up in terms of access to bank branches to around 26,000. The importance of a bank channel will only increase over the coming years as markets expand and as economies and households become wealthier. I cannot overstate the importance of this step change in distribution, scale and reach that this transaction brings in supply driven markets. It would be impossible to replicate organically on this scale.

I said I would come back to the leadership premium; the combined business will be the leading insurer in the most important market in the region and the benefits of that position are disproportionate. There is great cultural value in Asian markets attached to doing business with the largest player and most powerful brands. The leader has the ability to attract and retain the staffing agents and larger scale also means better efficiency which translates into lower unit cost and higher margins. And I am looking at a number of our Asian CEOs who are in the room here who are number one in the market and who are nodding. On the right you can see across the market where either Prudential or AIA is the leader but profitability is higher on average by 60%. That is no accident.

Let me now turn to integration. I couldn't resist stealing one of Rob's slides and he will comment on it in more detail later, but as I have said, Asian markets are supply

driven. Therefore we will structure the operating model to get the front end separate. In that way we will maximise our commercial firepower and use both brands so that we can continue to drive penetration up, product adoption up and grow revenues once we progressively integrate towards the backend to drive operating efficiency and cost savings.

The combinations that are best placed to succeed bring together companies that are in the same markets, the same industry and have the same operating model. In this transaction what we have is ten in market consolidations; ten in market consolidations. This is not M&A that takes you into diversification or into markets you don't know. These are companies that have very similar strategies and operating models and that know each other very well. Indeed there are many individuals, including in this room today, that have firsthand knowledge of both companies and Barry, who spent 11 years at AIA will give you some insight on this later.

Getting the people aspect right is vital and we have moved quickly to stabilise the AIA business and put in place appropriate retention arrangements and every indication we have AIA is that departures are lower. That is a fact. I have visited Asia several times in the last two months to talk directly to AIA and Prudential staff and agents. I have also recently written to all the agents individually of both AIA and Prudential. I don't believe I have ever written to 550,000 people. I have also—we have maintained an excellent dialogue with all country regulators and seen the benefit of all the early work and the quality of our relationships in the region.

Now I would like, if you will allow me, to cover the Q1 performance of both Pru and AIA which reinforces our view that this is the right deal at the right time. Q1 was a record first quarter for our Asian business with 30% growth and all markets performing strongly against Q1'09 with the exception of Korea, where our value over volume strategy is well known, we even beat our Q1'08 which was before the crisis our historic record. Margins, compared to Q1'09 increased by two percentage points to 51% and you will note that we have disclosed the margin for the first time in our quarterly results because we think that it is very hard to talk about our volume results if you cannot see the margin. So this record performance was not achieved at the expense of margin. And if any of you are concerned that our performance would slip post the announcement of the deal, I am delighted to say that we had the best March ever in Asia and it was our second highest month ever in Asia. Our troops are galvanised by this announcement, so an excellent job by the team in Asia. There are also excellent performances across the whole group in Q1, the US up 39%; in the UK up 7% and at M&G with very strong inflows.

So let's move on now to AIA. We said on March 1st that the AIA business was at a point of inflection. It was clear that performance had picked up in the second half of '09 as you can see here and we expected this trend to continue into 2010. You can see the evidence of that pick up in the graph on the left here. Growth in Q1 APE was 16% and as we expected, after talking to management in detail, margins have improved to 44%, so overall an increase in new business profit of 32%. A fantastic drop by the AIA team, a clear demonstration of their quality, of the power agency force and the strength of the brand. The AIA business is well on the road to recovery and we are ready to accelerate that recovery and remove the most costly aspects of competition between the two companies that existed before.

Prudential performed well against the market in '08 and '09 with a number of commentators linking this to the difficulties of AIA, which we have always disagreed

with. The Q1 performance of both companies demonstrates that there is enough headroom in the market for both companies to grow strongly, plus 30% for Prudential, plus 16% for AIA. So before I hand over to Nic, I would like to return to the growth this transaction can achieve.

Nic, Barry and Rob will cover in more detail the period up to 2013 and that is the small, second block on this page drawing a very compelling picture. This is the period that we have set ourselves to achieve the challenging targets and a period with strong contributions from both the more developed markets of Hong Kong and Singapore, but also the emerging markets of Asia.

However, look at the longer term picture also, beyond 2013. We believe it is just as—if not more—compelling and will in particular be characterised by the rapid development of emerging Asia. Creating the leadership position in these attractive markets now will deliver sustainable shareholder value and with that I will hand you over to Nic.

Nic Nicandrou (Chief Financial Officer)
Financial analysis and disclosures

Thank you Tidjane and good morning everyone. In the next half an hour I will take you through the financial picture of this transaction which I believe represents an unprecedented opportunity to create value for all of you, our shareholders. This is an unusual transaction because there has been a long period between announcing the deal and providing you with the supporting financial information. We have worked hard, very hard, over the last 11 weeks to produce a detailed prospectus which now fills this information vacuum. We have worked very closely with both AIG and AIA to prepare the prospectus and in doing this we have developed an even deeper understanding of the business. I have spent time in Hong Kong meeting the AIA team and I have overseen the due diligence process which has continued throughout. Everything that we have seen since the 1st March has confirmed and underlined the quality of the business, the quality of the people and the conservatism in its financials.

In my presentation this morning I will take you through a review of AIA's restated numbers, the combined group pro forma financials, the opportunity that this transaction creates and the deal structure and timetable. The five key messages that I would like you to take away from my session are: 1) that the restatement has improved all key metrics and the EEV remains conservative with more upside to come. 2) that Asia will represent 60% of the group at completion and will be the fastest growing part of our business from that point. 3) that this transaction will enable the enlarged Asian operation to double IFRS earnings and more than double new business profit by 2013. 4) that the size of the AIA business means that it can remit at least $1 billion each year, supporting an unchanged dividend policy. And 5) that there are more opportunities to free up surplus through restructuring and new business strain management. We are providing a lot of disclosure in the prospectus; we want the details of this transaction to be very clear.

I won't get through every item on this slide, but I would like to highlight a few of them. We have restated AIA's 2009 traditional EV to EEV and I have provided detailed analysis of its components together with assumptions and sensitivity down to country level. We have disclosed AIA's 2009 new business strain and have summarised how the value of in-force will convert to free surplus in the coming years. We have reissued AIA's IFRS three year track record on prudential's accounting basis and this has resulted in single digit improvements to reported profit and shareholders' funds. And we have released today our first quarter new business sales. We have disclosed for the first time, quarterly new business profits for both our business and for AIA and this is something we will continue to do on a quarterly basis going forward. In the time available we have not been able to fully replicate everything that we currently give you for Prudential. So we are not publishing AIA's 2009 embedded value, profit and loss account movements, but we think you have enough information to model it going forward.

Following the acquisition we will of course extend Prudential's current disclosures to the combined group and given the greater significance of Asia will provide you with more country specific financial metrics. The embedded value and capital picture of AIA is complicated by its ownership structure. AIA has a number of businesses which are run as branches of Hong Kong and are shown in the dark blue boxes on the slide. This means that for both embedded values and capital management purposes, AIA is required to overlay the more onerous Hong Kong reserving and regulatory requirements. This has the effect of increasing both the amounts of

regulatory capital and the cost of this capital. More about this in a moment, but suffice it to say that there are some obvious restructuring opportunities that would free up surplus and enhance embedded value.

With this background, let's move onto the embedded value numbers. The effect of moving AIA's traditional EV to European EV is summarised on this slide. As you can see the embedded value has improved by approximately $1 billion to $22 billion and new business profits by $40 million to $610 million. Our detailed analysis of AIA's traditional EV assumptions informed us that it was carrying approximately 200 basis points of additional allowance for risk relative to our own Asian businesses. We assessed that the differences between AIA's and our own business portfolios could not justify this gap. We therefore made a small number of top slice adjustments to reduce AIA's additional allowance for risk from 200 basis risk to about 160 basis points and the impact of this change has driven the improvements that are highlighted on this slide.

Even after this restatement there remains further upside and this best illustrated by looking at the detailed economic assumptions underpinning the AIA embedded value. On this slide I show the risk discount rate and the risk free rate used in the AIA restated EV by major country and I compare these to the equivalent assumptions for Prudential. The gap between the risk discount rate and the risk free rate is typically a good indicator of the allowance for risk in the EV calculations. As you can see the overall gap for AIA is 460 basis points which is 160 basis points higher than that for Pru Asia. The 460 for AIA is not directly comparable to the 300 for Pru Asia. This is because whilst we have sufficient changes to align AIA's methodology with general EEV principles, more work is needed to bring them fully into line with Prudential's more granular approach.

Just to remind you Prudential calculated EEV using a bottom up approach which looks at the volatility of product cash flows to derive product specific risk discount rates. For AIA a top down WACC approach is used to determine country specific risk discount rates which are then applied to the entire portfolio in that country. Furthermore the AIA 460 gap also needs to cover time value of options and guarantees and non hedgeable risks, both of which are explicitly allowed for in the Prudential calculation.

In concluding our work for the prospectus we have decided to retain the 160 basis points of additional risk allowance for AIA until we are able to move to a more granular approach. That said, based on what we have learned so far, the AIA restated EV will still have around 80 basis points of additional allowance for risk even after we take into account TVOGs and non hedgeable risks. This assessment is supported by independent MCEV modelling work, which arrives at a higher value than the $22 billion we are reporting today. And just in case you were wondering that AIA is fairly valued and that it is Prudential that is imprudent, I would refer you to the economic and operating assumption variances reported by Pru Asia over the last five years. The overall position is a net positive, as you can see on the slide. It is equivalent to four basis points each year. This is exactly what you would expect to see from a business that is setting assumptions responsibly and managing its operations effectively.

This next slide summarises the components of AIA's restated EV which are further analysed by major country in the prospectus. The restated EV of $22 billion comprises $7.765 billion of net worth, $4 billion of which represents free surplus and value of in-force before cost of capital of $15.552 billion.

I mentioned earlier that the AIA methodology employs the more onerous Hong Kong reserving and capital requirements for those businesses that operate as branches. This slide shows the frictional effect that this has on the free surplus and the overall embedded value. Re-domesticating the branches and restructuring the business would unlock both surplus and value. You can also see the effect on the re-stated EV of loading the full corporate office costs. This is a very conservative approach, and I don't know of any other company that fully loads these costs, Prudential included. That said, the realisation of corporate office savings will come through the reported EV in an amplified manner. And finally you can see on the right hand side of the slide the frictional of impacts of both of these items on post tax new business profit which have a 10% drag on the value created.

Before moving on to look at the combined group, a couple of slides on assets and liability management. This slide shows an analysis of the asset side of the balance sheet which you will have seen from our disclosures on the 1st March. The investment portfolio is conservative, with some 79% in fixed interest, half of which is corporate and half in government bonds. The structure of this portfolio is designed to match the duration of liability and to cover any interest rate guarantees on traditional par and non par products. The portfolio is conservatively rated using internal models and published ratings. 95% is investment grade and the quality of the portfolio is underlined by the low level of impairment experienced over the last three years which totalled $209 million. Not bad on a $50 billion fixed income book.

AIA's asset management capability is in fact one of its hidden strengths. Between 2006 and 2008 the fixed income portfolio yields have outperformed the benchmark in all of its major operations as shown on this slide. The quantum of our performance which ranges up to 3% is truly remarkable compared to benchmark yields which average around 4% across the various operating units. This outperformance benefits both customers and shareholders alike. There is an obvious opportunity for Prudential to leverage AIA's asset management capability and expertise through our growing retail funds offering in Asia which Tidjane has already covered.

Technical liabilities are appropriately reserved and our due diligence has not highlighted any areas of concern. Our primary focus has been on products with negative spread guarantees. The liability reserves for these products at the 30th November 2009 amounted to $3.4 billion as analysed on this slide. AIA offers guarantees on par and non par savings products. For business which has been issued in recent years the attachment points are low, typically in the nought to 3% range. Well below the current government bond yields. As shown on the slide, some business has been written in the past with higher attachment points, more specifically in Thailand, China and the Philippines, but these portfolios are relatively modest in size and have been appropriately reserved. The output of our liability adequacy testing is also shown on the slide. The reserves are between 114 and 147% of mean best estimate and are resilient to drop in interest rates.

I am now going to take you through what the combined group looks like on a pro forma basis starting with EEV shareholders' funds. Our Asian business contributes $31.8 billion to the group's embedded value and will represent 64% of the total. On the right hand side I have shown you a country analysis - Hong Kong now becomes the single biggest component of our EEV balance sheet. In fact given the high ROEVs of many of the businesses in this region it will not be long before Asian countries occupy the top three positions in EEV value terms.

Moving on to look at new business profit you see a similar picture with Asia contributing nearly $2 billion of pre tax profits equivalent to a margin in Asia of 48%. The analysis on the right hand side illustrates how well NBP is diversified in the region between the seven countries shown. Again you see the size of Hong Kong relative to the UK. Once you overlay the effect of the revenue synergies that Barry will cover later on in the presentation you will see that within a few years Hong Kong and Singapore will be comfortably above $500 million with Malaysia, Indonesia and Korea at or over $300 million. The IFRS operating profit also shows Asia contributing nearly $2.5 billion representing over half of the group total.

This is where the sheer size of AIA's earnings power comes into play and completely transforms the group picture. The two markets of Hong Kong and Singapore with a combined population of 11 million deliver $1.3 billion of IFRS profit. What is even more remarkable is that profits from countries such as Thailand, Indonesia and Malaysia where insurance penetration is low, are actually not that far behind our more mature Western businesses. Just imagine the earnings that these countries will be able to deliver as their savings markets mature.

When you stand back the combination of Pru Asia and AIA creates a business which hits the sweet spot. That is one with an NBP profile equivalent to a start up business and one with an IFRS earnings profile of a mature business. You would have to look long and hard to find another example like this.

I would now like to move on to capital which Tidjane has briefly commented on. Ahead of publishing the prospectus we sought an in principle agreement from the UK regulator and we have been working with them on this matter. The discussions with the FSA have centred around two main areas. The amount of surplus capital of the combined group and the resilience of this capital to market shocks. The outcome of these discussions have led to changes in the financing structure and more about that in a moment.

On the 1st March we laid out an estimate of the combined group IGD surplus and the way this was arrived at is summarised on the left hand side of this slide. It takes the standalone IGD surplus of the two businesses and deducts the element of the financing which was in the form of non qualifying senior debt. The middle column illustrates the position with a total available capital of £6.5 billion, a capital requirement of £4 billion and an IGD surplus of £2.5 billion. AIA currently operates under local regulatory restrictions which were introduced when AIG ran into trouble.

The Hong Kong regulator has confirmed that these restrictions will be lifted on completion at which point the business will be treated like every other insurer. This means that they would expect us to tell them when our local solvency dips below 150% of the local minimum and agree with them a plan to recover the position. The existence of this type of soft trigger is typical, not only in Hong Kong but in every other jurisdiction that Prudential operates in. The FSA deemed this requirement to represent a hard floor and has therefore only allowed us to count that proportion of the capital which is in excess of 150% of the Hong Kong minimum requirement. This had the effect of increasing the total pro forma level of required capital to £5.1 billion as illustrated by the higher dotted line on this slide and of reducing the pro forma IGD surplus by an equivalent amount.

On the resilience of the capital position, the group has been asked to maintain a sufficient amount of IGD surplus such that it can withstand an instantaneous shock

and still cover this higher pro forma level of required capital 1.5 times. In order to compensate for the reduction in the reported IGD surplus and to ensure sufficient surplus is in place following an instantaneous shock, we have replaced the senior debt element of our original financing structure with qualifying debt, subordinated debt. This results in a pro forma IGD surplus of £5.2 billion which covers the revised minimum requirement of £5.1 billion more than two times.

We have also put in place £1 billion contingent hybrid facility, callable if the cover falls below 150% to meet the post stress test requirement. This facility is in place for up to 24 months post completion. The consequence of these changes is to increase debt financing costs by around £110 million post tax. As our IGD surplus grows post completion we have the opportunity to refinance existing callable hybrid with senior debt, indeed to potentially retire it altogether mitigating this additional financing cost. Before moving on, I would emphasise that we do not regard this capital structure to be enduring. There will be opportunities to restructure and it provides us with greater flexibility to enhance returns on equity from this point.

I would now like to step through the opportunity that the combination creates by reference to new business profit, IFRS earnings, cash and free surplus, the three key metrics that we use to manage our business. As you have already heard, we are targeting at least £2.8 billion of pre-tax new business profits from Asia by 2013. This is equivalent to 2.3 times the 2009 pro forma results.

The chart on the left-hand side of the slide illustrates how this will be achieved. Tidjane has already spoken about the drivers of growth in Asia and these provide an important underpin to this target. AIA’s 2009 NBP was severely depressed by the AIG effect - the £510 million pre-tax NBP is a historic low. It is already rebounding fast and, under our ownership, we will be able to drive synergies which will see NBP rise by 2013 to £1.4 billion pre-tax. Barry will provide you with more colour on this in his session.

We fully expect our own business to be able to match this performance, leveraging on its existing strength of diversified distribution, broad and flexible product set, market position and brand. Pru Asia has doubled its profitability in the last four years, growing NBP by a CAGR of 21% and it is building on this momentum, as evidenced by the 35% increase in first quarter NBP that we have reported today. Targeting a CAGR of over 23% for the combined business is therefore achievable.

I mentioned that AIA’s new business profits are already rebounding and this is evident in the first quarter 2010 performance, which we have also published today. APE sales are up 16% at actual exchange rates, with all major countries reporting double digit sales growth. More importantly, repricing activity in Korea and favourable changes to product and country mix have improved post-tax margins by 4 percentage points to 31%.

New business profits have rebounded strongly and are up 32% to $141 million. Extrapolating this performance for the rest of the year would imply a post-tax NBP of approximately $800 million 2010. Based on everything that we know about AIA, we strongly believe that on a stand-alone basis the combination of business recovery and market growth will restore post-tax NBP to $1 billion by 2013. I do not regard this level as demanding when you factor the first quarter 2010 performance and when you consider that AIA was achieving this only three years ago. Overlaying the benefits of our planned revenue synergies to your point, Tidjane, you can see a path for AIA to deliver post-tax NBP of over $1.7 billion by 2013. If you accept my view

that the pre-synergies NBP of $1 billion in 2013 is undemanding, then, as illustrated on the right-hand side of the slide, you can see that higher numbers are attainable.

We are also targeting in excess of £3.26 billion of pre-tax IFRS operating earnings from Asia by 2013, which is equivalent to doubling the 2009 pro forma numbers. The chart on the slide illustrates how this will be achieved. Ultimately IFRS earnings are a margin on liabilities and will typically increase by growing net flows and driving margins up. Prudential has doubled IFRS profits in Asia in the last three years to £408 million by doing exactly this, aided by our relentless focus on the right business mix, by being disciplined about capital and by measuring and rewarding this metric.

AIA's portfolio has a number of characteristics that are similar to ours but there are some important differences, such as a bias towards more capital in terms of product and a greater focus on measuring and rewarding top-line, which we would want to rebalance. Between us, we have all the ingredients to grow IFRS operating earnings by a CAGR of more than 20%, including a large and high quality premium in force books, which will continue to drive positive net flows; opportunities to generate costs savings and infusing into AIA our relentless focus of deploying capital to the highest return and shortest pay-back markets and products.

This slide summarises how Pru Asia has been able to double its IFRS profits since 2007. This achievement is underpinned by strong net flows, which over this period amounted to £2 billion each year. The red bubbles on the slide express these net inflows as a percentage of opening liabilities and, as you can see, these range between 20% and 27% during this period. If you are writing profitable business, which we are, you would expect IFRS to grow by an equivalent percentage.

In fact, as we saw in the earlier slide (the previous slide), our Asian IFRS earnings have outpaced the growth in liabilities, increasing by a CAGR of 40% in the last three years. Underpinning this strong earnings growth is the remarkable success of our health and protection business in Asia. This business, particularly when sold as riders to regular premium unit linked savings contracts, has a very high internal rate of return, a pay-back period of two years and a very favourable IFRS profit signature. As you can see on the slide, health and protection business accounts for over 60% of our IFRS earnings in Asia today.

AIA has also been successful in driving net flows in absolute terms. As you can see on the slide, the net inflows in 2007, an undisturbed year, amounted to $6.6 billion and were equivalent to nearly 13% of opening liabilities. Net inflows remained high at between $4 billion and $5 billion in 2008 and 2009, the two worst years in AIA's history, caused by the AIG effect. This remarkably resilient performance was delivered despite a spike in exits in the immediate aftermath of the AIG effect and despite a 25% growth in new business sales. With the AIG effect now behind us, we believe that the net inflows will be restored to the pre-crisis levels and that IFRS earnings will grow at least as fast. And let's not forget that investment returns also drive the value of underlying liabilities and earnings. I have already commented on the above benchmark performance which AIA has achieved, delivering yields well in excess of 5% in 2009.

Taking the effect of net flows and investment returns together, you can begin to see how this business has the potential to grow IFRS earnings in the mid to high teens each year. And, of course, this is before you factor the additional flows from the revenue synergies, the earnings benefits from changes in business mix and cost savings.

The 2009 AIA post-tax IFRS operating earnings were depressed by a number of one-off items which are summarised on this slide. These relate to a DAC write-down in Korea associated with high surrenders and premium holidays experienced in 2009, one-off costs associated with strategic initiatives and a reserve catch-up and cancer claims also in Korea. The $1.6 billion in the right-hand column of this slide is more representative of the underlying profitability of this business and is a more appropriate level from which to project earnings going forward.

At this point I would like to mention that last week AIA published first quarter 2010 earnings figures based on US GAAP, which we have also included in the prospectus. These show pre-tax profits up 69% to $658 million which, albeit in a different financial language, foreshadow an earnings rebound and a significant earnings growth potential in the business.

So let's take a closer look at this potential, which I do on the right-hand side of this next slide. The charts apply different annual growth rates to the 2009 rebaselined earnings of $1.6 billion, incorporate fully phased post-tax synergies of $291 billion and deduct the costs of debt financing. Delivering a 15% CAGR is achievable when you consider AIA's undisturbed net flows growth potential that I covered earlier and when you consider the rebound in the first quarter of 2010 reported earnings.

The slide also illustrates the return on invested equity, which reaches 9.3% in 2013 under the middle scenario and can get to over 11% in the third scenario. We could deliver EPS neutrality at or after 2013 by slowing down new business growth but we do not believe this is the right way to maximise shareholder value and to maximise IFRS earnings in the longer term.

I will now move on to free surplus and cash. This slide shows the expected emergence of free surplus from AIA's in force books. The amounts shown have been discounted at 8.7% per annum so, to derive the actual dollar face value for each year, you would need to unwind this effect. The business generates in excess of $2 billion per annum, which is more than enough to finance new business and to make remittances to Group. So, in summary, AIA is a highly cash generative business.

This next slide compares the new business profitability characteristics of Pru Asia with those of AIA. In 2009 Prudential Asia wrote nearly $2 billion of APE, consuming $385 million of capital in the process, equivalent to a 20% new business strain which Tidjane referred to earlier. We achieved this by having a disciplined approach to capital, deploying to products and geographies with the highest return and the shortest pay-back period. This approach delivered a 2009 new business margin of 57%. Underlining this performance was the rich mix of health and protection business, contributing 29% and unit linked business contributing 41% of total sales.

AIA consumed $982 million of free surplus to deliver about the same level of sales, which is equivalent to 47% of new business strain on APE. The high levels of capital consumption are a consequence of a business mix which is more heavily skewed towards traditional par and non-par products, which make up approximately two-thirds of premiums written by AIA.

You can therefore appreciate the benefits that will emerge from applying both our discipline to managing new business strain and shifting the mix towards health and protection and unit linked products. Simply put, if this 47% could be reduced to

20%, then we would save in excess of $500 million each year. In summary, we believe that we can grow substantially the value we generate from AIA in new business and reduce the capital levels we consume in writing this business in absolute terms. You can take it as a given that AIA's free surplus generation and consumption will be a key area of focus for us. We have a proven track record in this area, as shown on the left-hand side of the slide. Prudential today generates significant free surplus after servicing all of our providers of capital. We intend to do the same for AIA. Today the AIA back book releases in excess of $2.1 billion of free surplus. $1 billion is consumed in writing new business, leaving an excess of around $1.1 billion which is available to cover the additional financing costs and dividends.

The actions that we plan to take on costs on evolving the business mix to more closely match that of Prudential Asia and on managing strain, will result in a dramatic improvement in net surplus generated within a short period of time. This provides Prudential with even greater capital flexibility going forward.

I reiterate on this next slide our confidence in our ability to upstream at least a billion dollars per annum and this is why the board has indicated that the dividend policy remains unchanged, which in effect means applying a consistent dividend pay-out ratio across the enlarged group. The new shares will be entitled to both an interim and a final dividend in 2010, adjusted for the bonus factor. There is significant scope for further incremental capital release as we restructure AIA, redomesticate those business which currently operate as branches and rationalise the portfolio. All these actions will enhance return on equity.

Moving on to deal structure, we have confirmed today that the overall debt equity financing split is the same as the one that we announced on the 1st March. Central to the structuring was the board's desire to respect the pre-emption rights of our existing shareholders and to ensure the support from the vendors. The debt equity mix has been structured to maintain Prudential's leverage ratio and support the IGD capital position.

As I have already indicated, all of the debt will be issued in the form of hybrid instruments and this has been underwritten by three sponsoring banks. In the event that we are unable to place all of this hybrid debt in the market, AIG has agreed to take up to $1.875 billion of this debt on broadly market terms.

The rights issue terms are summarised on this next slide which is being given to you separately. The key numbers here are the rights issue side is $20 billion net or $21 billion gross, equivalent to £14.5 billion, translated at the rates of our hedging program. We are issuing 11 shares for every 2 shares held, resulting in 13,965 million new shares being issued. The theoretical ex-rights price is 171.5 pence. The subscription price is 104 pence, which is equivalent to a 39.3% discount. AIG will receive 2,042 million shares, representing 10.9% of the enlarged company, bringing the total number of shares in issue to 18,527 million. The rest of the information on this slide is to assist you with your modelling.

Our revised timetable is shown on this slide. I would highlight the date of our Hong Kong and Singapore listing on the 25th May. The new date for the shareholder general meeting scheduled for the 7th June, after which there is the usual period of nil paid rights trading. The rights issue will complete by close of day on the 23rd June and, finally, regulatory approvals are expected in the third quarter of this year.

I want to conclude by summarising the key financial highlights. The restatement has improved all key financial metrics. EEV has increased by $1 billion to $22 billion and remains conservative. NBP has increased from $570 million to $610 million and is rebounding quickly, as evidenced by the 32% rise in the first quarter of 2010. We have raised our cost savings target to $370 million and, as confirmed, $800 million of NBP revenue synergies. On cash, we have announced that we can remit at least a billion dollars each year and we see ample opportunity to enhance free surplus going forward. And finally, we have underlined our confidence in this transaction with targets that double Asia IFRS earnings to £3.26 billion and more than double Asia NBP to £2.8 billion by 2013.

I would now like to hand over to Barry, who will tell you how we will deliver the operations. Thank you.

Barry Stowe (Chief Executive, Prudential Corporation Asia)
Execution

Thank you, Nic, and good morning. Since completing our Asian footprint less than ten years ago, Prudential has delivered profitable growth through the execution of successful distribution and product strategies. I have always said that if you are serious about Asia, you must be serious about agency. We have built the largest, most productive Pan-regional sales force in the industry. Since 2004 we have increased the scale of our agency three-fold while continuing to deliver higher levels of productivity and efficiency but we have also focused on other channels of distribution to broaden our reach and accelerate our growth. We identified the bank assurance opportunity very early and we moved aggressively with a unique model that leverages our agency distribution expertise by embedding Prudential sales staff in a retail banking environment.

The defining element of these distribution strategies, the theme that runs through everything that we do, is our understanding of face to face sales, its power; its efficiency; its strong cultural relevance in Asia. Face to face selling drives business with better persistency and higher margins. Central to our product strategy is a diligent focus on value over volume. We launched the right products at the right time, often leveraging first mover advantage to achieve market-leading positions just as we did with unit linked. Health and protection products are core to our mix. They contributed 29% of APE in 2009 and helped drive our NBP margins to a healthy 57%.

The value these strategies have delivered tells a compelling story that is already familiar to you. Our APE has grown at a CAGR of 23% over the last five years. We promised to double our 2005 NBP by 2009 and we did it in an environment that was far more challenging that any of us could have imagined and our discipline extends to IFRS results as well, where we have doubled operating profits in just two years.

Our competencies in product and distribution will enable us to deliver $800 million of pre-tax new business profit synergies from AIA by the end of 2013. $450 million of these synergies will be achieved by managing AIA's product mix more effectively, thereby increasing margins. We will improve the productivity of the AIA agency force and revitalise their bank distribution relationships. We will also apply customer analytics expertise to AIA's sizeable customer base. Collectively, these enhancements will create an additional $350 million in distribution-related synergies. This $800 million is after an expected $100 million in revenue dis-synergies within the next three years and we have projected up to $180 million of one-off implementation costs, the bulk of which are expected to be retention-related distribution expenses.

Since the collapse of its parent in the financial crisis, AIA has faced huge challenges. The AIA management team have done a tremendous job of holding together the business and its distribution platform. However, to stabilise their distribution platform and drive sales, they shifted away from the more sustainable product strategy that historically drove their success. Our immediate focus will be to return AIA to a concentration on products that deliver long term shareholder value - recurring premium, high margin products such as those that drive Prudential's product success. An important element of this is health and protection. AIA has been a clear leader in health and protection in the past. In fact, it was AIA that taught the industry how to manufacture and distribute these products. At Prudential bundling life products and protection riders has become a core competency and it will once again feature prominently in the AIA sales mix.

Let me give you a brief example of the impact of these products and how quickly that impact can be felt. We introduced a health product called PruShield in Singapore in June 2007. In just six months we sold over 80,000 policies and lifted Singapore's full year NBP margin by about 450 basis points. To demonstrate the value of bundling, for every one dollar of PruShield premium sold, the average customer spent an additional $8 on life product.

Now let me walk you through an example using one of AIA's businesses, where we will implement our product approach to drive value. In this particular market (which we cannot identify due to commercial sensitivities), health and protection's contribution to AIA's APE is one-third that of Prudential's and, not surprisingly, AIA's NBP margin is less than half. Rebalancing this product mix will allow us to materially shift profitability. To accomplish this, we will use the same tools we have used to drive these behaviours in our own business: training enhancements and revised sales scripts that emphasise protection and encourage product bundling; quotation systems that automatically propose wider attachments; and, importantly, alignment of compensation and incentives. You have seen the impact that increasing the health mix in our business has had on our margins. If we increase AIA's proportionate health business in this market to half that of our business, their margins will increase by almost 600 basis points.

The numbers on this chart demonstrate that the opportunity for synergies generated by agency productivity improvements are real, material and achievable. As you can see, in every market except Thailand in 2009 Prudential agents out-produced AIA agents, delivering significantly more APE and at margins that are consistently higher. In fact, for every one dollar of new business profit generated by an AIA agent, Prudential agents, on average, produced $2.70.

Now let's consider for a moment the impact of productivity improvement from an agent's perspective. First and foremost, agents are entrepreneurs. They are motivated by success, both financial success and recognition amongst their peers and in their communities. They want to be the best and they want to work for the best, the company that provides the best products and tools and support. It is important to understand that, as we more closely align agent sales incentives with shareholder value, the income potential of every agent increases. This has been the result in our own business and the effect on AIA agents will be no different.

Being serious about agency means being very serious about agency management. It is about knowing how to continuously grow and nurture a best in class agency force that embodies entrepreneurial drive and leadership and professional pride. We just emphasised the importance of compensation alignment, making sure that our most direct mechanism for influencing agent behaviour is used effectively to drive value, but this is only a part of what shapes a self-sustaining, self-rejuvenating culture of achievement. Recruitment is the lifeblood of an agency force. Ambitious rookie agents energise the business. The challenge is to get the right recruits to convert their initial enthusiasm into productivity and to do so quickly. Training is also fundamental. Depth of product knowledge and how to apply this knowledge to customers' needs is the foundation of what we do to serve the customer, but it is also in the best interests of the customer and of the shareholder that agents succeed over the long term. So our training programs also serve to embed a culture of sustained achievement. We teach agents how to successfully build and manage their own business over the long term.

Another thing that sets Prudential apart is the discipline that we demonstrate in the ongoing management of this channel. We know exactly what is happening in the field every day and we act upon what we see.

Let's look for a moment at Malaysia, a market where AIA's history dates back as far as AIA's. When I arrived at Prudential, I had concerns with this: one of our most established agency forces was simply not performing as well as it could. We had become complacent and our market share was falling. Our incentive and promotion programs were not structured to motivate the right behaviours and we were missing out on a huge opportunity as a result of our weak penetration in the Bumiputera market. We conducted an extensive review and launched a program of transformation. We applied across the entire business the agency management discipline that I have just described. We overhauled our agency compensation and incentive structures. We put special emphasis on promotion of Bumiputera agency leaders and the recruitment of Bumiputera agents.

And the results? – a transformed agency force fully engaged and reenergised and, most notably, delivering the kind of outperformance that you have come to expect from Prudential. Recruitment levels increased 30%. Agency leader promotions more than doubled. Our activity rate rose 10%, coupled with a 41% increase in productivity. Overall, agency APE increased at a CAGR of 29%. We achieved a 400 basis point increase in market share, and Takaful products, which are appealing to all consumers but are especially appealing to the booming market, now make up around 20% of our total sales in Malaysia. So it goes without saying that shareholders are pleased with these results but agents are equally pleased because first year commissions in Malaysia are at an all-time high.

You all know very well our successful relationship with Standard Chartered Bank. This relationship continues to move from strength to strength, with sales in Hong Kong having grown at a CAGR of 30% in recent years. In 2008 we extended both the scope and term of this partnership, which now covers ten markets in Asia.

But today I would like to talk to you about two other relationships which are driving strong results for our business. In Taiwan our relationship with E Sun Bank as originally based on a more traditional bank assurance model. In 2008 we agreed with E Sun management to implement Prudential sales models, embedding our sales staff in their branches, with our program of training management and incentives, which not only allows us to drive higher levels of sales but drive higher margins as well. We instituted new training and sales policies for the bank staff as well and we introduced new incentives for them. The result of these changes was a 76% increase in APE and a material, positive change in the trajectory of the business. It is worth noting that we have an equally successful relationship with SCB in Taiwan. This is one of many examples across the region of our ability to build and sustain multiple productive partnerships in a single market.

We also have a track record of quick successes. On January 6th of this year we announced a new, exclusive bank assurance arrangement with UOB covering Singapore, Thailand and Indonesia. By February 6th, we were recording sales in each of UOB's 464 branches. UOB now contributes 30% of our bank assurance APE in Singapore and 55% in Thailand.

Again commercial sensitivities prevent us from disclosing the specifics of this example but it is based upon an existing AIA bank assurance relationship, providing access to over 700 branches. Although the number of applications per active branch

is similar to Prudential's, AIA's APE per sale and their percentage of branches activated is materially lower. Introduction of the Prudential model I have described in this relationship would generate additional NBP of $41 million per year by 2013.

Since 2007 Prudential has been building robust capabilities around customer management, data mining and direct marketing to deepen our customer relationships and drive repeat sales. We have benchmarked these competencies outside our industry and have developed a strong team, along with the right resources and architecture to deliver cross-sale and up-sale revenues. We have been able to generate quick and material improvements in repeat sales as a result. We have done this by deploying increasingly sophisticated customer campaigns and by generating leads for agents that align customers' propensity to buy with specific product offers. These techniques identify unmet customer needs and help meet those needs. They drive additional sales, very high closing ratios and improved persistency.

In 2009 over 30% of our APE came from existing Prudential customers and these sales tend to deliver high margins. AIA has historically demonstrated strength in this area as well and actually began building these capabilities before we did. Working together, it is clear there is scope to improve upon these results. Consider the power of the combination: a well-defined customer strategy driving repeat sales from a customer base 30 million strong, coupled with accelerated new customer acquisition, driven by the region's largest, most productive multi-channel distribution platform. This is not scale for scale's sake. This is scale for the shareholder's sake.

Now I would like to take a moment to discuss potential dis-synergies and what we will do to mitigate them. Let's focus on AIA's agency platform. First, one must understand that in the majority of Asian markets where we operate, regulators restrict or prohibit the poaching of agents. It is also important to remember that AIA put retention packages in place last year for much of its agency force, with particular focus on key producers. These packages are of long duration and so AIA agents have a strong financial incentive to stay with the organisation. What is more, these retention packages have already demonstrated their effectiveness.

The disruption to the AIA agency force caused by the failure of AIG in 2008 cannot be overstated. For insurance professionals selling long term products, the financial collapse of their parent company was crippling, yet the AIA agency force survived and is normalising. Now while these factors go a long way in mitigating the risk of agency attrition, this nonetheless remains top of our agenda. We will retain our focus on incentivising all agents so that when their behaviour and performance deliver shareholder value, they significantly increase their own income as well.

As you know, we have held a number of town hall meetings throughout Asia. Naturally there were some concerns expressed in these meetings but most expressed enthusiasm for the potential that our collective strength will provide them. They spoke about more product availability and innovation, enhanced service levels, increased branding and marketing to support their activities. These are improvements that they understand few competitors can or will match.

So, as you can see, a great deal of work has already been done and we have detailed plans in place to deliver expected pre-tax NBP synergies of $800 million. While the preponderance of these synergies will be delivered in Hong Kong, Malaysia, Singapore, Korea and Indonesia, we will execute these strategies consistently across the region.

I have covered a lot of ground here but there are a few key points I would like to reiterate as I close. Prudential has a proven track record of successful delivery in Asia. We have clear plans in place to drive the revenue synergies that we have discussed today. These synergies will come from the combination of similar businesses operating in the same markets and we are confident that, as we work more closely with AIA in the coming weeks and months, we will identify further opportunities for shareholder value creation.

AIA is a business that is not unknown to me. I can tell you from my somewhat unique perspective, heavily informed by my 11 years at AIG, that there is far more that unites these organisations than divides them. A number of my colleagues (some of whom are in the room with us here today) share this perspective. Collectively, we have spent dozens of years in senior leadership positions at AIG and AIA. We understand the power of both organisations and the extraordinary opportunity created by the combination of the two. I am fully confident that we can and will deliver just as we have in the past.

And now I would like to turn over to Rob.

Rob Devey (Integration Leader, Executive Director)
Integration of AIA and Prudential

Thank you, Barry, and good morning everyone. You have been incredibly patient listening to a very detailed presentation and we are nearly done but, before we finish, I just want to take you through where we are with the integration planning, update you on what has been happening in those ten weeks since the 1st March and also talk in some detail about the cost synergies that we will achieve.

Let me start by laying out the principles by which we are running the integration. Now we have been very clear from the start that we must maintain momentum and grow value in both the underlying business, in addition to bringing the businesses together and delivering on the cost and revenue synergies that we have laid out. The evidence that we have seen this morning is very encouraging in terms of the underlying performance of the businesses but it gives us no sense of complacency at all.

Central to our business momentum is enhancing the great brands in our new portfolio and retaining and developing the best talent of both organisations. The integration program will draw on this talent as we use these principles to populate the new structure, acting with fairness and transparency but pragmatically and with pace throughout. The integration program itself sits alongside the AIA and Prudential businesses, which remain accountable for driving performance in the short term today plus key decisions for the future tomorrow.

The increasingly detailed work that we have done on cost synergies has given great confidence in our ability to achieve $370 million cost savings by 2013. The majority of these savings, $200 million, will come from consolidation of the two regional offices, with $170 million coming from the in-market consolidations themselves. Unsurprisingly, a major driver of the cost savings comes from the merger of the management teams and elimination of duplication in their functions, nearing $140 million, approximately 40% of the combined savings.

Our increased scale will generate procurement savings of approximately $60 million, an elimination of duplication in project costs and better use of our property footprint generates $60 million and $30 million respectively. Combined with savings in the other areas, total savings of $370 million, therefore some 17% of the combined cost base of the businesses. It is important to know, as Tidjane said at the start, that these numbers have been subject to extensive due diligence over the last ten weeks plus external opinion from our auditors, KPMG.

Moving into a little more detail on the synergies, our commitment of $370 million represents 23% of the addressable cost base, excluding those countries either without overlap or where integration is prohibited for single entity reasons. This will drive a reduction in our expense ratio from 10.7% to 9.1% on a pro forma basis in 2009 terms. The weighting of these savings is, not surprisingly, to the head offices.

Cost synergies will be phased, with 29% in year one and 63% in year two, with the full run-rate achieved by the end of year three. The one-off implementation cost to achieve these synergies is $380 million and this covers issues such as severance costs, IT investments, lease breaks, etcetera, and at 103% of the annual savings, is within expected benchmarks, as a cumulative one-off cost for realising the savings of this nature.

The integration process itself has ramped up rapidly over the last two months, with strong collaboration at the most senior levels in both organisations. Joint teams have now been mobilised to develop the detailed implementation plans to capture the synergies we have identified and to ensure the work can start immediately on completion of the transaction. Of course, as Barry mentioned, we are often building on experience of people who have worked in both organisations as we develop our initial plan. To give you a sense of the scale of the work over the last two months, we have now got nearly a hundred people from both Asian businesses involved in the integration planning and we are only really in the enabling phase of the integration.

Tidjane said back on the 1st March that we have engaged leading law firms in all jurisdictions on anti-trust and regulatory issues. That early work has stood us in very good stead and the subsequent engagement with the Asian regulators has been very positive. Anti-trust filings in Korea and the US were mandatory and we have already received clearance in these jurisdictions. We filed voluntarily in two other countries. Regulatory filings are all proceeding in line with our plans and at this point we do not expect any material issues to arise. There is a very clear benefit from the strong regulatory relationships that we have established over the past several years in the region.

Our integration structure is agreed, reporting to and under oversight from the Group board. Tidjane chairs the Steering Committee, which is responsible for the delivery of the integration. My role is to drive and coordinate the overall progress of the integration to ensure that we develop detailed integration plans to meet our synergy targets and our other integration objectives that I laid out at the start. Critically, the line teams themselves remain accountable for the delivery of the plans themselves, in addition to driving the underlying businesses that we have made so clear the performance of which is so fundamental to the success of this deal.

Just turning to our integration approach, we have been very much tailoring this to the needs of the counties and functions, allowing us to reflect the specific characteristics of local markets whilst also driving the benefits of scale from our functions. Within the countries we have got three broad types of integration. In those markets such as Singapore or Hong Kong, where each business is well-established, we have what we call a merger of equals. In markets such as Indonesia or the Philippines, one business is more established than the other and therefore we have a more natural lead partner. Finally, we have special cases: countries such as India or China where we have either joint ventures or have licence or ownership restrictions; or Australia where we only operate under the AIA brand today.

As Tidjane mentioned, our operating model within the countries is to retain separate brands and the distribution capability associated with them, coordinated under a single country leadership. The markets within which we operate remain supply constrained and therefore multiple brands allow us to grow both ourselves and the market faster than we would be able to do under a single brand. Within the middle office, we will progressively integrate and take a selective approach, retaining those elements which are central to brand identity, but progressively integrating where the functions become further away from the customer and the channels. Within the back office, we will rapidly move to complete integration as the benefits of scale, discipline in processes, systems and control are there to be captured.

Now we acknowledge that a merger or acquisition activity brings risks but we are very confident that in this case the risks are manageable, primarily because the businesses know each other well, have similar business models and play in the same

markets. Success in these circumstances is far more predictable than in those deals involving new market entry. Walking through some of the risks in turn, although it is a significant integration, the sizes of the head offices are not enormous, at under 1500 FTE. They are also co-located in Hong Kong. Moving to the countries, we have effectively ten in-market consolidations and we have a strong local understanding in each and every one of those markets. This also plays through to the regulatory risk for the transaction, driven both by the process of the integration and in terms of our underlying business as usual management. We have already commenced a program of proactive regulatory outreach and this will continue over the coming months.

Now while there are no real precedents for a multi-country insurance integration of this nature, we have strong transformation experience in both the Pru Asia and the AIA businesses. We are supplementing this with strong integration experience from across the Group.

Moving to differences in culture or otherwise between the two organisations, perhaps I can comment on this as an outsider to both. What I see are two businesses that have very strong heritages, which have been great competitors in markets over the past several years. Many people have worked in both businesses and often one business has learned from another. Therefore I see far more similarities than differences. Given our desire to take the best from both, I am very confident that we can build a combined culture for our new Asian organisation.
Finally, I would like to reflect on the risk to revenues. Firstly, we are not integrating distribution or brands and this clearly mitigates one of the most significant risks but, perhaps more importantly though, we view this as a revenue-driven deal where its success will be defined by maintaining the strong momentum of the underlying businesses. In this context, while we do see some short term revenue dis-synergies, as Barry laid out, we do not expect these to be long-lasting.

Moving to timing, one of our first objectives was to stabilise the organisation so we have moved quickly to ensure that we have in place appropriate retention and reward packages for senior individuals and our agency partners. For the next few months our focus will be building the new organisation through the appointments process, developing the detailed synergy implementation plans and driving quick wins from those plans. Now we are totally committed to a fair and transparent appointments process and we have engaged an independent third party to assist us in this area. In this way, we can bring together the best talent from both businesses to build a regional and, I am sure, a world leader.

Our detailed plans are now being built from the bottom up, with full engagement from both businesses. These plans will be developed by the year-end to allow us to deliver on a single integrated business plan in 2011. However, that is not to say that we will not be delivering synergies in 2010. There are quick wins to be had as soon as the deal completes, such as combined media buying for instance and some of our people cost savings.

So, in summary, we believe that an integration of this magnitude is in no way straightforward but we are commencing with pace and with good collaboration across both businesses. We are absolutely committed to achieving the cost and revenue synergies that we have laid out this morning while retaining the strong underlying momentum of both these fantastic businesses. With that, back to Tidjane.

Tidjane Thiam (Chief Executive Officer)
Conclusion

We have four fundamental beliefs about this transaction: (1) we believe it makes sense strategically. Asian markets will remain high growth and with high profitability and returns, these markets are sustainable. By creating the leading Pan regional company in Asia, we will drive value for our shareholders. We also believe it makes sense financially for our shareholders. There is a potential for an appraisal value over 60 billion by 2013, a 79% up-side. It is strong on IFRS and cash measurers and we will maintain our dividend policy. We have the operational skills to deliver (Barry talked to you about our track record of delivery at Prudential) and we have granular plans based on in-depth knowledge of both organisations. We have the capability, finally, to integrate the two companies successfully. We have already studied [unclear] business and the staff planning is well underway.

We are bringing together two similar organisations and we have a structure entirely focused on commercial success, which is vital in the primary growth area in our business in the world. So we strongly believe that this transaction will create value for our shareholders, that they will keep the Pru … that they will benefit from a well-planned acquisition with the AIA recovery; that they will capture the value of the synergies between the two companies and that they will benefit from the superior growth and returns that accrue to the leader in Asian insurance markets.

Thank you for your attention and your patience and we now look forward to answering your questions.

Q&A

Craig Bourke (MF Global):
A key part of your investment case seems to be that AIA is selling the wrong products at the moment and yet you pointed to the cash – quality of the cash generation from what those products have produced. Can you give an assurance that when you are switching the product mix to more capital light products that you will maintain or improve the quality of that cash generation, particularly the resilience that you pointed out. And just related to that, have there been barriers that AIA themselves have encountered in trying to effect this product switch? And just one final thing, on AIA in China, the end of the exclusive arrangement, is that something that is going to also apply after disposal, after you dispose? Is that something regarding your holding of it or is that also going to be something that is going to apply whoever buys the AIA business in China?

Tidjane Thiam:
Thank you. It is a very important point, the whole question of product mix. The cash generation from AIA is a reflection effectively of the back book sales. If you look at what we have been able to do in PCA, Prudential Asia, that health and protection product is absolutely the sweet spot as an insurance product because it has high EEV margins, it has good IFRS profits and the cash pay-backs are relatively quick. So if you want products that allow you to hit your three measures at the same time, and if you have the seen the cash commitments when we said that we would turn cash positive in Asia, you know we have done that while showing the growth that we have seen in APE, in EEV, margins that are still going up and doubling IFRS profits. So the reality is that if you sell that product successfully, you can really drive your three metrics … and that is a proposition that we would like to put into AIA.

As far as the product itself, very interesting. Prudential has been very successful at selling unit linked in Asia. They also manufacture unit linked products and tried to sell them. If you remember the chart that Nic showed that showed our IFRS profits by source of earnings, 61% of our profit in Asia is insurance income, all Health and Protection. What they did is sell unit linked without riders because they thought that the riders were detracting from the investment return in the simulation to customers whereas what we do is we sell the unit linked but we put in the rider. Selling that product to a customer in a way that he gets the unit linked but we make our margins through the rider and that is something that we need to absolutely put into the AIA distribution channel. And it is not very difficult because, as Barry was saying, it is a win-win. Remember the example he gave. For every dollar of Prushield, we sold $8 dollars of life to the same customer, so you get a double win where you actually sell a product that has a better signature on your key metrics and that is why we keep talking about aligning shareholder interest with the incentive of the sales force. You get them to sell something that is value-enhancing for the shareholders and it works on every key metric. Barry, do you want to explain.

Barry Stowe:
Yes, I think the other important point to emphasise, which I tried to articulate earlier, is that shifting the product mix back to more Health and Protection for AIA is not something radical and new and untried for them. They taught the industry how to do this. It is just in the last five or six years, they have moved in a different direction that was more top-line focused and all we are talking about doing is bringing them back to the competencies that exist within the organisation. They have just been rewarding different behaviour.

Rob Devey:
And it is a journey that they have already embarked on.

Barry Stowe:
Yes. Talking to the AIA management today, they are already starting to shift in that direction. They have been preparing for their IPO.

Tidjane Thiam:
They told us that on our trips in Asia, they absolutely see the opportunity and they see the need to go after it because they see how successful Prudential has been at doing that.

On China, just to be very clear, we have the joint venture with CITIC, which is a 50/50 joint venture and we are very happy with our relationship there. It is performing well, the margin was 50%. What the Regulator said and we went to see him earlier on with Barry, he was actually positive and friendly. He said we welcome this transaction but we do not want to maintain the 100% ownership that AIG has had since the 90s, so we will ask you to change that, to sell down to 50% and he was very open-minded in terms of what happened after that; if it went to CITIC, whether we merged the two businesses; if it went to someone else, whether we should go down joint venture route with CITIC to localise it. He was very open, quite relaxed and honestly did not apply any time pressure on us because they also understand that it is a branch, the Chinese business. We would have to domesticate the business first before we can move to a transaction, so that will take a while.

Jon Hocking (Morgan Stanley):
I have three questions please. Firstly, the billion dollars of cash flow we are talking about by 2011, could you talk a little bit about how the pay-out ratio might vary by country. I think crudely it seems to be round about 50% pay-out ratio on AIA earnings because it is a well-publicised issue that Thailand, for example, it would be interesting if we can see the split.

Secondly, in terms of the integration between the two agency forces, are you going to do anything to harmonise the commission structures or is it just middle office, back office – if you see these two organisations carrying on independently?

And then just finally on the health products, you mentioned a lot about changing product mix. How do the margins look on a discrete basis for the health products between Pru and AIA? Are your margins higher or lower? Is it just purely a mix, in effect? Thank you.

Tidjane Thiam:
Okay, thank you. Nic, do you want to take the question.

Nic Nicandrou:
Yes. In relation to cashflow, it is at least a billion each year. We have not given the split of where it is coming from by country. The thing I would point you to is that around 80% of the IFRS returns of AIA come from four countries: Hong Kong, Singapore, Malaysia and Thailand. Therefore you would expect the cash to follow that pattern. The other thing I would say is that we have not included into the one billion anything that we will be able to free-up, trapped capital. That would represent an upside.

Tidjane Thiam:
Integration and commission structures.

Barry Stowe:
On the commission structure, if you are assuming that there are dramatic differences in the commission structures, it is not accurate because they are actually very close. So it is not a lot of work involved in harmonising the commission structures. They are basically the same and, in fact, there are markets in Asia where commission structures are essentially dictated, where there are caps on commissions, Malaysia being one example. You know there would be virtually no difference there. The important thing to emphasise is as we implement all of the productivity and efficiency that we talked about in agency, you improve training, give them more tools like electronic submission tools and so forth that make their lives simpler. That all increases their income. I mean an Asian who is shown how to sell more, how to automatically bundle, that improves his personal compensation. When you shift into a different product mix which generates more shareholder value, it gives you the latitude to offer more value to the distributor to sell that product for you as well. So this is all good news from an Asian prospective.

Tidjane Thiam:
The next one was the margin; is it higher for health products individually on a discrete basis?

Nic Nicandrou:
AIA do deliver a higher margin on health and protection. In 2009, you would see from the disclosure that the margin across the whole portfolio was around 30% on a post-tax basis. Health and protection delivered closer to 39%. It is considerably lower than what we are able to deliver in relation to our health and protection products and that is because of what Tidjane has already said. We sell the bulk of our health and protection as a rider and that AIA sell a lot of their health and protection as stand-alone.

Tidjane Thiam:
Yes, and we find that it is a lot easier to sell the rider, you know the hard kind of stand-alone sales and it is more sticky also in terms of persistency. If you look at what happened in 2008 and 2009 that has really helped, the kind of regular premium unit-linked with rider has been at the heart of our resilience from the crisis because it doesn't lapse. There was a belief in the market that, because we sell unit linked and because the equity market had fallen, we would suffer but actually the riders have been a very effective downside protection through the downturn, so it has a very high value.

Tony Silverman (Standard &Poor's):
I just wondered – extending the previous two questions. Slide 49 that we have spoken about with your split of profits with the insurance income on it, do we have something like that split for AIA in 2009? The second question was, if I have done my arithmetic correctly and you mentioned 11 million population for Hong Kong and Singapore and 1.3 billion IFRS profit, I think that is $120 for each man, woman and child per annum. I mean that is a remarkable figure. Is that sustainable? Is it going up? Is it what the other territories are aiming at? The final question is just what are the dividends on the convertibles in place that are there as well as I think – I need to be reminded of what it is on the hybrids as well.

Tidjane Thiam:
Okay. The sources of earnings, your first question on slide 49, I think Nic mentioned that in his introduction a bit apologetically that we did not have that for AIA. We have a sense of it. When we started on that, it took us six months of work to put that disclosure together, there is quite a bit of work behind it. So key disclosure, we want to provide it but we don't have it today. We have worked very hard during the last ten weeks but that was not achievable. So we will make it available as soon as possible.

Hong Kong and Singapore, yes, absolutely remarkable we agree. We believe it is sustainable when you look at the density in this market, the GDP per capita. By any measure in the world, Hong Kong and Singapore are two outliers. You can look at any measure. Singapore exports are 260% of GDP. I mean these are special places and we have achieved special numbers and they are sustainable. We talk about the connection to China, for instance, for Hong Kong. That is a huge factor in the dynamic there. The tax regime in Hong Kong is also a unique factor. That is going to be there to stay, and the same thing in Singapore. There is another thing we didn't – sorry, we tried to keep the presentation as short as possible but there is another factor in Singapore's demography. They have a huge pension problem coming, which for our industry is also actually an upside. That is not even in the numbers we are talking about here. So these are two special places that will remain special but do not forget also what we said about emerging Asia. There is so much growth. You see Thailand 356 million of IFRS profit, 1.8% penetration. The upside is material and very significant. So Hong Kong and Singapore but there are many other markets.

Tidjane Thiam:
Dividends:375 bps on the mandatory, 625 bps on the preferred securities and the hybrid will be market rates, depending on where the market will be.

Nic Nicandrou:
Hybrid will be a combination of upper tier 2 and lower tier 2. In our numbers we will assume that we will get somewhere around the 8.5% mark. Can I make one more point on Hong Kong, if I may? In relation to your question if it is sustainable, you only have to look at the embedded value of this business, $11 billion. So a big proportion of that is this, it will unwind; it will come through. I think the other point I want to remind you where the math is slightly astray is that Hong Kong does hold – I did illustrate earlier that we overlay the more onerous Hong Kong reserving and capital requirement and therefore, if you like, Hong Kong is holding those assets in relation to that overlay. You see the assets in the disclosure that we have given, the order of five billion and therefore, if you like, the income on those assets get added into the Hong Kong profits but they are not necessarily sourced from Hong Kong residents.

Tidjane Thiam:
Several other branches coming in to Hong Kong, so it will have an impact on the numbers you see.

Greg Paterson (KBW):
I just want to focus on the guaranteed products. It is one question but in four parts. The first one is I wonder if you can give us some kind of idea how much Hong Kong is going to get of the ten billion inherited estate? The second thing is I wonder if you can give us some idea of the surplus capital within the separate Singapore and Malaysia with-profit funds. The third question is I wonder if you can give us a

difference in margin, the magnitude difference between a Pru UK style with profit product financed for inherited estate versus AIA fixed annuity type products so we can get a feel for the sort of plug and play margin uplift there. The final question, I see your general account now 8 billion of equity and which is quite high relative to international standards for sort of general accounts. I wonder if you are planning to reduce that or you are comfortable with that or there is some reason why that is sustainable at such a high level in terms of risk, risk problems.

Tidjane Thiam:
Okay, thanks. Nic?

Nic Nicandrou:
You spoke too quickly, Greig?

Greig Paterson (KBW):
With profit, Hong Kong, how much is it going to get of the ten billion inherited estate?

Nic Nicandrou:
Yes. I think that is not broken out. I believe it is related to roughly the volume of the business that we write and also the different growth rates of that business. So that is not something that we have analysed…

Tidjane Thiam:
We have wanted for a number of years to domesticate Hong Kong. In our business, that is a project … and it is one of the things that FSA has asked us to do in this process so we will domesticate the Hong Kong business and at that time we will disclose the allocation of the inherited estate between Hong Kong and the UK. It was one of the key questions. It will be done in a very transparent manner and with the FSA.

Greig Paterson (KBW):
It is just I am trying to figure out how much future business it can finance and I am not sure whether Singapore and Malaysia – I don't think it is in the public domain, the statutory returns for them. So could you give us an idea of how much new business financing capacity those two have? Do we know?

Nic Nicandrou:
I thought the question was how much free surplus is there in Malaysia and Singapore. That is disclosed in the prospectus. I can tell you Malaysia has US$219 million free surplus. Singapore has $601 million in relation to free surplus. We haven't broken that up between the different types of funds and where they come from but that gives you an indication of the amounts of free surplus and again all that is analysed in the prospectus.

Greig Paterson (KBW):
So it is both non-profit and with profit? Then could you give us a feel for the margin difference between an AIA fixed annuity and a Prudential let's say a Hong Kong with profit product, 2.6% guarantee or whatever, you write there? Because I mean this is low-hanging fruit in terms of a margin uplift. That is what I am trying to figure out. The final thing is 8 billion in a general account of equity, do you not think that is a little high. I mean what is your thinking around that?

Nic Nicandrou:
I think it goes back to AIA view of best optimising return at the same time as matching duration and matching the interest guarantees. Everything that we have seen and everything that we know is that the ALM is superb. It is second to none in the region. You have seen the performance that they have been able to deliver. They have suffered hardly any losses in relation to the fixed income book. Part of the reason the performance is picking up in the first quarter of 2010 is the rebound that I referred to, albeit on a US GAAP basis, that is coming on the back of a very strong positive rebound in terms of investment income, investment gain, realisations of those gains, as well as underlying net flow. You know they are returning to the kind of undisturbed levels that I referred to in my presentation. So we are not concerned about the ALM obviously.

Tidjane Thiam:
The equity exposure seems reasonable when you look at the size of the portfolio, it does not strike me as too high at all, and just keep in mind the US$209 million of impairments during 2008 and 2009 for a portfolio of that scale. I don't know another insurance company in the world that has done as well, so it is a very, very good performance.

Oliver Steel (Deutsche Bank):
Oliver Steel, Deutsche Bank; two questions. First is on your IFRS profit assumptions and you appear to have given us some rather vague guide there that you seem to be taking the adjusted 2009 profit and then facilitating that to add 15% per annum as a sort of central case. I am wondering how you came up with that 15% and specifically what sort of revenue synergies you are assuming in the IFRS numbers as opposed to the EV new business profit number. The second thing is on disposals, which you mentioned just sort of generally, and I was wondering what sort of parameters you are setting around disposals; which countries you might be looking to sell; what sort of fees you are looking at and what will guide you in that direction?

Tidjane Thiam:
I will start the disposal and take the IFRS afterwards. We really see them in two very different brackets. You have the mandatory disposals, which we just have to execute. We are talking about China and we have already received several strong expressions of interest, unsolicited. We have talked about Malaysia from the AIA business, where we need to have a minority partner, and we have talked about India, which is something we knew. We negotiated with AIG. Tata has a right of first refusal. There have been negotiations between AIG and Tata and basically a sale has been agreed and we will proceed with that sale. That is part of the SPA signed on March 1st. So that was identified and those are the three. So it is China, Malaysia and India. India is done. Malaysia will be done rapidly and China, as I said, involves a domestication which, as you know, is a relatively complex operation and which we will do together with the Regulator before we can execute a transaction. As far as voluntary disposals are concerned, there is no change in the company's stance. We've always said we are not emotional about that, it's about value, we sold Taiwan, there were some discussion saying that it's in your core market. We sold it because it was advantageous from a shareholder value creation perspective and that's the criterion we apply to each and every part of the business. It's very straightforward and we'll continue to operate on that basis.

IFRS profits and the logic behind it; I think if you remember Nic's chart on the growth in reserves showing that in the worst three years we were something like between 6 and 9%. We think that there is a very strong underlying growth in the

liabilities and we think that if you add to that investment returns which we've shown as very, very strong. The complexity in translating EV revenue into IFRS is significant and on the three-year horizon, you are talking about 2010, 2013, it's only a limited portion of the revenue synergies will flow into IFRS. A lot of that's going to kick in later.

Andrew Crean (Autonomous Research):
Good morning, three questions. On the 3.26 billion IFRS profit target for 2013, if you add in the other businesses in the UK, US and take costs, I think that is dilutive and I think you mentioned that; could you tell us how much you think the 2013 earnings will be dilutive, because I think in March you said you get to IFRS neutrality at that point.

Secondly, you talk about and on slide 55 give something of AIA's Group cash flow; I was more interested in the cash to Group and the fungibility issues and I wonder whether you could give us more detail on how much AIA's capital and your cash generation is stopped from going to headquarters until you restructure.

Thirdly, you talk about being unemotional about disposals. Five years hence, I think in order for investors to understand what they're investing in, what do you think likely this group will look like, particularly around the UK and US operations; have you got any commentary on that?

Tidjane Thiam:
Effectively, you're right, we're dilutive by 2013 and we did say that at first we would be neutral by 2012. A number of things have happened since then. The share price has moved, the expectations of our IFRS earnings have moved up and you have the added cost of the debt, which pushes you down that and we have said though that there are compensating upsides. There is £1.2 billion of hybrid callable in 2011. You can also with the disposals raise significant amounts of cash which you can use to either retire recallable debt, because now your new IGD headroom allows you to do so a without jeopardising your capital position and you can either retire it completely so cash flow benefit or swap it into senior, which also has a cash flow benefit. Within a year we have options to mitigate the costs that have been imposed on us this time.

Then you were asking about fungibility; that's been an important area of discussion with the FSA and we're very happy with actually the outcome we've got. We have a formal letter. What the FSA had required was an unequivocal commitment from the OCI, the Regulator in Hong Kong, that they would lift all restrictions on capital movement on the day of completion. That was all discussed on day one and we have that commitment in writing from the OCI. That gives us a lot of confidence and comfort and the fact that capital will flow freely. The other thing about the 5 billion of IGD is that actually it makes the extraction of capital much more straightforward, because there's no chance that they'll be trapped to strengthen a solvency position anyway, so capital will be much easier to extract. I'd say a final point is softer; it is a climate point. It's a fact that we have been explicitly committed to, for instance, in Malaysia having a minority partner, in Thailand where it's not really required, but we'll do that happily because we already have a minority partner. That can only improve our relationship with the Regulator, because that means that we'll operate in full conformity with the local environment, so that's positive.

Five years from now, the UK, the US I am going to be very boring, but I'll give the same answer, which is that we look at the issues on the shareholder value basis and

that we will do or not do things depending on whether they are value enhancing for our shareholders or not.

Raghu Hariharan (Citi):
I see you mention that there is an opportunity on re-pricing and product mix. I was wondering how much of an opportunity is there on the back book. I would presume most of these back books are guaranteed, so I was wondering where that comes from.

The last question was really on changes on Regulatory landscape. If you look at, for example, a market like India where you see immense changes in Regulatory landscape, one might say it's arbitrary where you've seen changes, you're seeing caps and commissions, you're seeing changes between the Regulators as to who will regulate the products; what mitigants are there in your plan to manage such a thing considering that most of your distribution is proprietary.

Tidjane Thiam:
On the hurdles, there are no unusual hurdles. You know that even to get our dividend from Jackson every year we need an approval from the Regulator. It is just part of the insurance business model. In every territory I know to extract the dividend, in all places in the world, you always have to get an approval from the Regulator, but I would say generally under normal circumstances it doesn't raise any issues, so there is no more than the normal processes that exist in every country. I think, from memory I think AIA got recently a $400 million dividend from Thailand and that happened, so there is no major difference of specificity there.

I think you were talking about re-pricing. Yes, there are always opportunities for re-pricing, but then you have to get more granular, because a number of products actually in their contracts gives you an option for re-pricing, a lot of the products we sell have that, so there is opportunity for re-pricing. AIA has done it in Korea, it's part of the recovery, you've seen their numbers and the GAAP profits being up 69%; a lot of that is actually simply re-pricing in Korea and a lot of products in Asia offer you a retrospective re-pricing clause. Barry, I don't know if you want to say more on that.

Barry Stowe:
Many of these products, certainly; our products are built to the extent that we offer guarantees, we generally do build in opportunity to re-price products after certain durations and so forth, and I wouldn't want to speak explicitly about any particular AIA product, but I know from past experience that their products have been built in a similar way.

Tidjane Thiam:
Your third question, I think a key point I'd like to make is really that Asia is not one place. It's really absolutely central to how we look at the region and everything we do in the region. You cannot lump Regulators together; it's absolutely a market-by-market, country-by-country, culture-by-culture question. I think what you're saying about India is correct. The margins in India, including ours, is at 19% or 20% on an EEV basis and that is largely the intention of a Regulator. You will find that in many of our Asian countries from the 50% you can achieve in China to the 80% you can achieve in Hong Kong, the Regulator takes a different view which is that they want to have strong companies, companies that are strong, from a Prudential perspective that allows us to make margins, that allows us to hold significant levels of capital and we are quite strict also on conduct of business issues. We just had in January the

audit of our Asian operations by the FSA. They gave us feedback. One of the conclusions was that they consider that we operate in every single market in Asia above local Regulatory requirements and that's something I'm quite proud of. We have our own standards. I think you had an audit committee for Asia just yesterday or the day before.

Barry Stowe:
An independently chaired audit committee and an independently chaired audit committee in each market.

Tidjane Thiam:
Exactly. I used to chair it and a large part of the agenda of the audit committee is around conduct of business, sales practices, any complaints are fed back up, and Barry and his team are used to going to the audit committee to explain what happened and why we have this problem with that Regulator or this Regulator, because I think that that's a very important part of who we are in Asia and we're getting the benefit of that investment in the way we are now going about getting all the approval from Asia for this transaction.

Marcus Barnard (Oriel Securities):
One big feature of this deal is the health insurance aspect. You talk about expanding margins in various countries by selling health and protection riders where there are out of pocket healthcare markets. I wondered, could you give us some idea of what claims ratios you currently experience and going forward if you'd be prepared to update us on what's assumed in the pricing basis to what you actually experience in practice, particularly as markets mature and demographics means there's an aging population, it seems that the cost of claims rises in relation to the size of premiums, so I just wonder if that's something you can update us on or give us some information now.

Tidjane Thiam:
You're right to say that it's a key part of our presentation…I mean our strategy. I'm saying presentation, but we had a slide that showed the loss ratio by country and that it's relatively low across countries and it didn't survive the cutting down efforts, but we have it available and we can give you the data, but the loss ratios are good. That's one. The second thing is that we only take a frequency risk in most cases; we don't take the claim risk, because the policy is if this happens to you we'll give you $50 for the amount of the claim that is known; that protects us against medical cost inflation, which is something you don't want to be insuring, it outstrips GDP growth in every country we know. It's not a sustainable proposition and we don't want to be the insurer of last resort. We just don't do it; we don't underwrite that. What we underwrite is a frequency risk and if you look at the claims, and I look Pete Lloyd here – the Chief Actuary – but I think the claims, experienced variances are generally positive in the region even though income is absolutely controlled, so the pricing has been good, the claims insurance is good, the loss ratios are good, it's a very good product and true, there will be maturity some day, but starting from 0.7, 0.9, 1.8% penetrations, that we're 10 or 15 years away from.

Barry Stowe:
We should also acknowledge that we have here today Brad Harris who's the mad scientist of all this health stuff we've been doing over the last three years.

Tidjane Thiam:
He's the man with the yellow tie in the front. I should give him credit plus all the team in Asia. Everything we've done in health and protection under Barry's leadership, Brad has played an absolutely key role, so he's the man talk to.

Marcus Rivaldi (Morgan Stanley):
Quick questions; if AIG/AIA have to step up and take some of this hybrid debt, how long is that locked in with them for? Secondly, with the Tier 1 I think it was effectively 12 months at the mandate or it is two-years lock-in with AIG. About reducing this elevated capital structure, I think Nic you talked about this and Tidjane you also mentioned you have got 1.2 billion of hybrid that could be retired in 11. What steps do you need to achieve to be able to ultimately release that level of capital? Is it just about retaining earnings or disposals or something else?

Tidjane Thiam:
AIG, I think in the prospectus it is $1.825 billion, up to $1.825 billion that they will take at market conditions. The lock up, it is 12 months, so it is qualifying capital. The capital structure you would have to basically make a number of disposals, but at very conservative, look at the valuations, fundamentally we're talking about £1.2 billion that is really very, very likely to have been achieved by 2011 and £1.2 billion of proceeds you just use the cash to pay back the debt and then you have options. It could go back to senior debt, pay special dividends, any number of options. It is a bit early to get into more detail on that, but there is flexibility.

Marcus Rivaldi (Morgan Stanley):
Following back on that, disposals you're talking about, are they the ones you have just mentioned today, so Malaysia, China and India?

Tidjane Thiam:
Nothing beyond.

Andrew Crean (Autonomous Research):
A couple of questions; if you take out your with-profit business which is financed from within the fund. What is the comparison of product strain relative to sales between the two groups? I think you have quoted 20% and 47%. Secondly, you have said that the dividend policy is going to be unchanged. How can we judge that? Your dividend policy to date beyond being progressive is a little undefined.

Tidjane Thiam:
The 'with profit' certainly gives us an advantage. I am trying to think of a way to quantify it, but I would still think based on what I know of the individual products that the difference in new business strain would be significant, very significant anyway, because we're just so completely different. If you look at FAs and VAs in the US space, one is two or three times more capital intensive than the other. 'With profit' would play a role and we can probably give you that offline, but I would think that there would still be a very significant difference in new business between the two.

For dividend policy I am looking at my Chairman here. You're saying that the formulation of the dividend policy.

Andrew Crean (Autonomous Research):
In time we have got to look back and to see whether the dividend policy is unchanged. Therefore the payment that you make having done the deal will be

similar to what we would have seen had you not done the deal. I think the problem is that I am unclear as to the current dividend policy.

Tidjane Thiam:
It says that we aim to pay a progressive dividend and to maintain a cover of about two times. I am quoting freely, but that is the essence of it. What we are saying is that we aim to continue to maintain a progressive dividend i.e. a growing dividend and we aim to maintain over time a cover of 2 times, I think it is was 2.2 in '09. Fundamentally what it means you're doubling. If you take things at a very, very high level, you're doubling the Group, you're basically going to more or less double your dividend, but I am not allowed to make any forward looking statements and quantitative statements about the dividend, so this is just a general observation, because the dividend as you know is defined by the Board.

Jon Hocking (Morgan Stanley):
Just another couple of questions please. On the new business strain for AIA in 2009, you mentioned there are some longer-term retention plans that are being put in place. Could you give us some idea what proportion of that strain is actually coming from above trend commission payments and what proportion is actually mix driven. That is the first question. The second question, just on the fixed income performance of AIA, it seems surprising they have had that degree of outperformance given the relatively small universe of bonds they're investing in all of these countries. What extent have you dug around in those numbers to see whether it is sustainable? What reliance is there in AIA's overall numbers from outperformance from fixed income?

Tidjane Thiam:
The new business strain, how much is that linked to the incentives.

Nic Nicandrou:
We have stripped that effect out in the numbers that you see, so the 982 million is exclude if you like, the impact of any double commissions or extra incentives that were given in 2009.

Tidjane Thiam:
So it is not in those numbers. It is really required capital plus true acquisition costs. It is nothing else. The fixed income performance. It is linked to the size of AIA in most of these countries and their dominance there. They're really in a unique position on the debt market if you look at places like Thailand etc, it is an advantage. Their accumulation of history, their information flows they see, the trading flows they see, they're able to take positions with a limited level of risk which is rewarding for them and that is likely to continue for a while given their absolute scale.

Jon Hocking (Morgan Stanley):
In a market like Thailand for example I think you own about, the AIA has about a third of the market in Thailand, the whole outstanding market. How can you outperform a market to that extent when you own that big a chunk of the market?

Tidjane Thiam:
Some day we will bring Mr Chu here and he will explain it to you, but suffice to say that we have been extremely impressed by his team. How do you ever explain the outperformance of an asset management shop? You can't summarise it in one sentence. What they have is an extraordinary track record over decades really and they're an exceptional team.

Barry Stowe:
They're not one-offs; this is a sustained track record of very strong performance, very effective yield enhancement techniques. They have just done a terrific job.

Tony Silverman (Standard & Poor's):
I would just like to follow up and try and press a bit more on the health insurance as Marcus mentioned earlier, so it is very important. Do I take it you have an enormous schedule of costs per procedure and that is how it is underwritten? Are these 12 months' policies? The health insurance is an enormous field and there are big arguments that policies should be longer than 12 months and that may be the way things are going to bring in preventative care for example. It would be interesting to hear a lot more about it if it is so important.

Tidjane Thiam:
Barry was the Head of the Health Insurance Business world wide at AIG, so I wouldn't dare answer that in his presence.

Barry Stowe:
There are various different types of products and there are products you would manufacture in one market and not in another. For instance we do products in Malaysia and Singapore that are not full reimbursement products but they would get closer to reimbursement. You would never do a product of that kind in Vietnam or Thailand where you don't have the infrastructure, you don't have the claim system, and you don't have all the infrastructure that is required to manage a product in a market like that. The vast majority of what we do and based on my understanding which is dated of AIA, the vast majority of what they do are scheduled products. They're not usually quite as extensive as what you're talking about where you get $5 if you break a finger and things like that, but very often they are focused on major illnesses and accidents, so you might have a critical illness product where you get a specific payout upon diagnosis of a particular disease; which is Tidjane referred to. What you would focus on is frequency, where there are extraordinarily reliable statistics in markets about frequency, then the trends of frequency versus a full reimbursement product where you're accepting changes not just in morbidity but changes in price, changes in inflation. It entails much less risk and you can price with much greater predictability if you focus on frequency risk and that is the vast majority of what we do.

In terms of the duration of the product, there are 12-month products, there are 5 year products, there are whole of life products; which are all priced differently, but all of them priced to generate a good result for both the shareholder and for the customer.

Trevor Moss (Berenberg Bank):
I believe it is probably inevitable that some competitors will be thinking they may be able to poach some of the AIA agents in particular. I have seen a number of references to this in media, both here in the UK and also out in Asia. I wonder if you might be prepared to detail a little more of the nature and style and possibly the duration of the types of contracts that AIA put in place in the last couple of years which gives you confidence that they will remain in place; and indeed what you may consider doing further on top of that.

Tidjane Thiam:
I think the programs that AIA has put in place, as Barry said are targeted at the top producers. Typically in sales forces like this you will see that the top 10% will produce 50/60% of the embedded value and those are the ones you want to target and retain and that makes the cost of those programs containable. If you look at the slide you will see that the in the revenue synergies we put $180 million of costs to capture those synergies. That is largely a relatively granular estimate of what you would need to stabilise that sales force. We think that will be enough to be effective, plus the commercial success. The reality is the way you keep your sales force is by giving it good products and by being better than the competition and helping earn money; they make more money from being with you than by going to others you will find. If others are willing to pay uneconomic prices to buy them, should you really oppose it? Probably not. That is the dynamic with the agency force.

Barry Stowe:
The other thing that is extremely important I think to step back and remember is that even if you accept that this transaction could create in the minds of some AIA agents a disruption, it pales in comparison to the disruption in the fall of 2008 when again insurance agents selling long term savings products were trying to sell an AIG branded product, with the blue box on it. That is disruption. This is a thunderstorm; that was a nuclear blast by comparison.

Trevor Moss (Berenberg Bank):
The accounting for whatever AIA put in place previously, maybe in the last couple of years, did that run through the P&L or was the deferred and amortised. Are you going to be doing the same?

Nic Nicandrou:
The accounting that was put in place would be, if there was sufficient profits in the products they were writing they would defer it. In a large number of instances it would have been written off. I think that is also part of the reason why we have seen depressed numbers in 2009.

Tidjane Thiam:
That is a big part of the explanation absolutely. I don't want to cut it short but we have kept you here a long time, maybe just one last question. I see Greig and Raghu both with their hands up. I think Greig you have had a good shot. He knows where to find us. Raghu, why don't you ask the last question.

Raghu Hariharan (Citi)
I was wondering, you have the new business profit target. You have an IFRS profit target? I was wondering why you were reticent on having a cash flow target. At the end of the day that would be the real return and the most real return to the shareholders. If you were to naively calculate like I do, you have 1 billion cash coming up to Group next year and you have 20 billion of rights issues coming through, so the return is 5%. I was wondering whether you could give us a sense of what this cash flow profile would look like. What do you think the upside is? What do you think the downsides are for this cash flow number?

Tidjane Thiam:
I think the return we gave on equity is 9.3% by 2013, so that's slightly more than 5; you are being a bit unfair saying 5%. The 1 billion will be part of the numerator of the 9.3%, but there are other returns, as you know, so the target we have is 9.3% by 2013. You have heard for years from us, EV, IFRS and cash, we're staying true to

that, this is an Asian acquisition and we're giving you an EV and IFRS and a cash target which is meaningful. We have also said that we are confident that we will exceed that cash. We will update you in due course as soon as we can.

Thank you for your attention and I am looking forward to answering more of your questions in the future. Thank you.