PRUDENTIAL

Full Year Results 2011

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Business Review

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Welcome

Ladies and gentlemen, welcome to our full year results presentation. I apologise, because I know it is a long day and you have already heard another company's results, but we have, once again, a large number of slides, so I hope that you are sitting comfortably. We will take you through them slowly between Nic and I, but it is going to take probably the better part of an hour. So, we are going to present first a highlight of our results for 2011 and we will then give you an update on our progress towards our 2013 objectives that we have called 'Growth and Cash', and talk about the performance of each of our businesses, starting with Asia, then Jackson, and then the UK and M&G. Then I will hand over to Nic, who will cover the financials in more detail, before coming back to talk about the outlook. We will then, of course, take your questions, if you still have any energy left. The executive team and a number of key people from our operations across the world are here today and we all look forward to a productive dialogue with you.

Headline figures

I will begin with the headline numbers, which you have seen now, picking out a few. For the first time, we have delivered IFRS profits of over £2 billion. We have an EV operating profit of almost £4 billion and EV per share now stands at 771 pence. We have remitted £1,105 million of net cash remittances from the businesses to the centre, which is also a first in our history. The full-year dividend has been increased to 25.19 pence per share, which is a 5.6% increase following the 20% uplift of last year.

It is good to keep in mind that these results have been delivered in an environment that was not benign. In 2011, we have seen significant macroeconomic volatility. We have seen long-term interest rates falling to unprecedented levels, which, as you know, is a particular challenge for insurance companies, and Nic will come back to that. It has also been a turbulent year for equity markets. It is a statistical quirk that the S&P finished at the same level as it began, at 1257, but between those two points, we saw huge volatility, particularly in the third quarter.

Key milestones

IFRS

So, these are good results in a challenging environment. There are two key milestones within the results that I would like to focus on now. One has to do with our IFRS profits and the other one with cash. I will start with IFRS. For the first time in our company's history, our Asian business is the largest contributor to our IFRS profits. This is an important factor in the valuation you make of our business, when you focus on price, on multiples. The objective we have of doubling the 2009 profits by 2013 is therefore of strategic importance to us. By this metric, our profits in Asia have almost trebled in the last three years and in 2011 alone, our profits increased by 30%.

This growth is the result of a number of actions. Since 2008, I have been very clear on our definition of success, putting more emphasis than previously on IFRS and cash. We have been talking to you about EV, IFRS and cash in the same breath. We have also taken a more strategic view of our earnings with the analysis of the source of earnings breaking down into insurance profits, risk profits, spread profits and fee profits, and we have used that to drive our business. We have enhanced our disclosures in parallel and also ensured that the incentives for management teams were consistent with this definition of success. Our teams have risen to the challenge and delivered a clear step-up in the IFRS profitability of our business and taken a number of actions for that. Barry has driven the transformation of our product list with increasing health and protection, which is well known now. These are our risk earnings, with higher quality earnings, which are relatively insulated from financial market movements and give us resilience.

New business strain

We have also had an increased focus on new business strain. In 2008, we started disclosing IFRS new business strain. We have managed it very proactively. We have driven growth in policyholder liabilities and we have managed the in-force book very rigorously to deliver expected profits and cash. If you add to that operational leverage, you get this type of curve. All these actions have been implemented across the broad portfolio of our business, so this improvement is broad-based. I can tell you that in 2011, 10 of our 11 countries have seen their IF profits grow. For nine countries in Asia, this involved double-digit growth in IFRS profits. Eight countries in Asia had growth in excess of 30%, which leads to this very strong performance. At £784 million in 2011, Asia represents more IFRS profits than our Group did as a whole a few years ago. This is an important milestone for us, with potentially positive implications on our valuation.

Cash

The second important milestone is really cash. Each of our four businesses now contributes material cash remittances to the centre. Historically, we have been seen as having one source of cash, the UK – people who are rude called it a cash cow – and one growth engine, Asia. Our 2011 results show that actually, all four of our businesses are now materially cash generative and I think that is really important. Also, three of our businesses have significant growth potential: Asia, Jackson and M&G.

On this slide you can see in blue the cash remittances received from UK life, and those in red are from all the other businesses. In 2006, the blue bar is £45 million. We got £45 million out of the UK after actually making an infusion in the first half. In the last three years, the UK has contributed more than 900 million of cash. So, you can compare 900 million versus an infusion in 2006. It is a transformation. So, this focus on cash has allowed us to do very well elsewhere too: JNL, Asia and M&G here in red. There was £800 million of cash generation in 2011.

So, if you look at the totals together, in 2011 we had cash remittances above £1 billion, which is up 18% in the year. The other point I would like to make here is that this cash growth has not been achieved at the expense of business growth. That is a central point, because you can always drive cash up if you trade off between growth and cash, but that is why we have called this strategy ‘Growth and Cash’. It is not very imaginative, but I think it describes what we have done very well. I have a twist on it, because I say it is growth and cash, but it is cash from everybody. It is a very fair policy.

Progress towards 2013 objectives

I will now take a closer look at our progress towards the growth and cash objectives for 2013. More than anything else, they really summarise what we drive the business to deliver and what we would like to be judged on. So, at the end of 2011, we are exactly halfway for a four-year programme. We said 2010, 2011, 2012 and 2013, so what I am trying to do here is to give you a half-time update on our progress towards the six objectives. This update is relatively simple. At half-time, we are on target or ahead of schedule for every one of the six objectives. I will start with the three Asian ones, which are NBP, IFRS and cash. For the first two, we have achieved 69% of the target for IFRS and 51% of the target for new business profit. For cash, we have delivered £206 million in 2011 and we are about two-thirds of the way to a target of £300 million by 2013.

In the US and the UK, we have respectively to deliver £200 million and £350 million. Jackson made a particularly large remittance in 2011, with £322 million, which is technically ahead of the 2013 objective, and I will come back to that later. The UK has remitted £297 million and achieved 85% of its 2013 objective. At Group level, we are aiming for £3.8 billion of net remittances cumulatively over 2010-2013, and at half-time, we are 54% of the way, so we are on track. To put these numbers in perspective, if you look at the 2006-2009 period, we generated £2.5 billion. So, £3.8 billion as an ambition is a step change compared to what we were able to produce historically. So, this is sound progress.

Capital allocation

Our focus on capital allocation has played a key role in achieving these results. Since 2008, we have been talking about a more rigorous and unbiased approach to capital allocation across the businesses, basing our decisions primarily on IRRs and payback periods. We have taken a number of actions, which have significantly modified the shape and quantum of our investment in new business. This is demonstrated on the left-hand side of this chart. In the UK, we have reviewed our individual annuities pricing to optimise new business strain. We have closed our equity release business in the UK.

We have become much more selective about writing bulk business in the UK, which introduced a degree of volatility in our numbers, but we are happy to live with that. In 2009, we introduced a significantly higher IRR hurdle, consistent with the IRRs we achieved organically in other businesses. We want the BPAs to compete with the organic companies we have elsewhere to get capital. We also insisted that both deals should be much less capital-consumptive in absolute terms, which is why you will see that in some years, we have had great volumes, and in others not, because if you know such deals, we will not write the business. That is discipline.

We have closed Japan to new business. We have successfully restructured the business in Korea. We have reduced our volumes in the US and, in 2011, we have made further improvements to the VAs. When combined with initiatives to save costs, this has further reduced our new business strain, which decreased from £300 million to £200 million, whilst writing more business. So, all this has had a significant cumulative impact. The quantum of capital that we invest has been reduced, leading to increased capital efficiency, increased new business profits and increased cash generation.

Capital efficiency

At the end of 2010, I believed and unfortunately I told many of you that we had reached the point of maximum capital efficiency. So, in 2011, the teams worked very hard to prove me wrong and to drive further improvement. We consumed £241 million less than in 2008 and delivered £946 million more profit. It is this 'more for less' slogan. We are comfortable with the shape of this investment in new business. If you look inside the small 553 bar, for the first time, more than half our investment went into Asia, and that is a transformation. Also, you can see that capital consumption in the US is decreasing at a time when margins are normalising.

Asia

So, I would now like to take a few minutes to talk about the businesses in turn. I will start with Asia. This is APE in Asia over 12 years. We have a track record of year-on-year growth in Asia, and our 2011 performance adds another year to the series. Over the last 20 years, we have expanded our business and today our operations in the region are vast. We serve more than 11 million customers, who collectively hold over 16 million Prudential policies. We have well-established operations in 11 countries in Asia and in six of these markets, shown on the left here, we are the number one player. The diversity of our operation in Asia is a source of great strength and that is what I want to insist on in this slide, because it provides us with the scale and resilience to continue to drive the business for profitable growth.

Local challenges

The sheer scale of PCA means that inevitably there will be times when we must overcome local challenges. For instance, in 2009, we faced challenges in Korea. We restructured the business to focus on our proprietary agency distribution and today in Korea, we have a smaller but much more profitable business, which is now profitable on an IFRS basis with growing new business profit. In 2010, you all know that there was a major regulatory reform in India, which had a negative impact on the market. We have been working hard with our partner to address the resulting business challenge. In the fourth quarter of 2011, our sales in India went up by 33% quarter-on-quarter, marking the return of the business to a more healthy position.

New business profit

So, this diversification in Asia allows us to continue to grow profitably at a regional level, whatever changes we may face in specific markets at any point in time, and that is a unique strength. So, you can see through the numbers that we are generating more new business profit than the other leading players in the region, together with the highest margins, as shown on the slide. So, looking forward, we remain confident in our ability to continue to generate significant and rapidly growing new business profits at high margins. One reason for that confidence is that we are in the right markets. We are focused on the seven markets of Indonesia, Singapore, Malaysia, Hong Kong, Thailand, Vietnam and the Philippines – what we refer to often as our sweet spot, and you will hear that a number of times coming back between Nic and myself. You can see here, in blue, that this focus has paid off very well for us.

South East Asia sweet spot

I would like to take a moment to talk about why we believe that the sweet spot is strategically meaningful by going over a few macro numbers with you. These seven countries have a cumulative GDP of 2 trillion US dollars; exactly 2,027 billion US dollars. I have to say when we did realise this, we were all a bit surprised. We knew it was a large number, but it is a real large number. It has a population of 530 million, which would make it the third largest country in the world, if it were a country. This GDP which is larger than Canada's and close to France or the UK or Italy, would make it a G7 country. In simple terms, we are number one in a G7 country, but it is a G7 country that has an interesting characteristic of growing stronger, unlike the other G7 countries. The GDP growth in 2010, in this set of countries was 361 billion US. To put it in perspective, the GDP growth in the US, in the same year, was 250. These are IMF statistics. This is why we are doing well and making so much money. We are the leading insurance company in a set of countries that is already large, attractive and fast-growing as illustrated by our rank that you see here on the right-hand side.

Indonesia

Taking one of those markets, that looms large here in red, Indonesia, the country has a population of 238 million, the fourth most populous country in the world and is among the 20 largest economies in the world with an average age – that is an amazing number – of 28 years. So the population is young, set to continue growing to around 265 million in 2020, a net increase of almost 30 million people with an insurance penetration of 1%. So, growth opportunities are vast. We are also best in the nascent markets of Philippines and Vietnam, where similarly to Indonesia, we have strong positions. We are now number one in both Vietnam and the Philippines.

Hong Kong and Singapore

Hong Kong and Singapore on the other hand are very different markets to Indonesia or Vietnam. They do have relatively small populations, but their citizens are very wealthy, by any standard. Their positions as regional, financial centres mean that they play a critical role in the region. The opportunities available to us in Hong Kong and Singapore are very significant.

Right operating model

Presence in all these attractive Asian markets alone is not a guarantee of success. Many of our companies operate in the same markets. A great deal of our progress in the region is due to the fact that we have the right operating model. So if we start with our products, demand for savings and protection products in Asia is high as personal wealth levels throughout the region increase and many countries do not have a well developed social safety net. Asia's population of high net worth individuals, to take the international definition as people with investible assets over 1 million US dollars, is now more than 3.3 million. The equivalent number for Europe is 3.1 and, for the US, 3.4. If present growth rates are maintained, Asia's population of high net worth individuals will soon be the largest in the world. Wealth creation and asset accumulation across Asia however, are not limited to the very rich. Throughout Asian society, the middle class population is growing, and is increasingly able to save for long-term personal aspirations and family goals. We have a diverse product-range that is well suited to meeting the demands of Asia's rising middle class.

Product range

Our focus on health and protection insurance helps Asian governments meet their targets for improving the insurance coverage over the population. Protection premiums as a percentage of APE reached 30% during 2011, up 3% from 2010 and more than six times in absolute times, our sales five years ago. In addition, our emphasis on regular premium policies with over 90% of our APE coming from regular premium, encourages the right behaviour from our customers. Regular premiums incentivise them to save for the long term, helping them to smooth out the peaks and troughs of the market, while providing us with a resilient source of profitable growth that is less susceptible to market movements than single premium business.

Finally, demand for all these products of course fluctuates with a high degree of correlation to the economic cycle, in particular, interest rates and equity markets. The point here for us, is that we have a full suite of products to meet our customers' demands, regardless of where we are in the cycle. This product suite is critical to our competitiveness.

Right people and right partners: agency

It is good to have the products and it is even better to sell them. We sell these products successfully because we have, we believe, the right people and the right partners. Many of you saw some of our agents, and their enthusiasm, a few months ago in Kuala Lumpur. They are the heart of our business and our business model. We ended 2011 with 228,000 agents. Agency continues to be our largest channel. Prudential agents differentiate themselves from the competition and are the most productive in the region, in terms of new business profit per agent, which has always been the metric by which we drive the network. New agent recruitment activity has delivered continued growth in our total number of agents over the last 12 months and productivity trends remain favourable. Levels of activity have risen; the products we sold have become increasingly profitable. Average agency case sizes in the final quarter in Q4 2011, saw the best month-on-month increases that we have seen all year so that overall, the performance of the agency force is strong.

Right people and right partners: banks

Moving on, in blue, to our second major channel, banks. We are working with the right partners. In 2006, our sales through banks contributed just one-fourth of the sales through agency. In 2011, they contributed 46% of the level of sales of agency. They have more than trebled in five years. 2011 was a record breaking year for our relationship with Standard Chartered. We saw a 30% increase in sales, year-on-year. Our relationship with UOB continues to flourish. In 2011, sales more than doubled compared to 2010, so we doubled in one year. The relationship continues to perform well ahead of the levels we had initially planned for. The extension to Malaysia has made a strong start. We have many initiative planned this year. We are confident of further growth in 2012.

Momentum: APE

So the momentum we have across Asia is clear, and has generated the performance shown on this slide. On this slide there is over four years, quarter by quarter, side by side analyses. That is interesting because you see that in red, which is 2011, we had a record performance in each quarter this year. This was against tough comparators because 2010 was a very good year. We delivered a particularly strong fourth quarter, I know that there is some speculation on that, with APE up 18% and it is interesting if you look at the red bubbles you see an accelerating momentum for the year-two, six, 14, 18, quarter on quarter. So we do believe we have an acceleration in Asia, not a deceleration. Q4 2011 was our first ever quarter above 500 million of APE which is really a number which will take us longer to attend.

Momentum: NBP

New business volume, we prefer NBP which is really our main growth metric; the numbers are very pleasing. You see a 27% increase in NBP in Q4. I have very little to add to that; good results. We are also pleased to say that the momentum we generated over the course of 2011 has allowed us to make a very positive start to 2012, as far as we know and as we said in our statement this morning. So, bringing all of this together, as that will be enough for Asia, summarising on one slide on our three key metrics: new business profits, IFRS and cash. You can see that we have made really good progress on each of them and Nic will come back with more detail on some of that. It is a picture we are reasonably happy with.

The US

Overview

So moving now to the US, I will use a term that Mike has used in Kuala Lumpur, which was interesting, it is the monthly sales of VAs and I have updated because I know that you came to see what happened to the monthly sales in Q4 and Q3. If you remember, in May we said that we were taking action on pricing. We said that this would go through in August and you can see from September what has happened there as a combination of the actions we have taken but also on the S&P which was under pressure and quite volatile at the time. We believe the action that we have taken was fully justified because it was reflecting what we believe was a new economic environment and a new interest rate environment.

Our teams have been able to implement those actions without triggering any fire sales which is actually quite an achievement from our US team. We have always been focused on IRRs and proactive on pricing and product features. This was particularly visible we believe in the market turmoil of the last three or four years. It is worth noting that our IRRs on VAs in 2011 were slightly higher than in 2010 and that what we managed with business too. So as we move forward we will continue to take a proactive approach setting our prices and product features at conservative levels, and our volumes will reflect both the competitive environments and the behaviour of our competitors, which we have little control over, and the performance of US equity markets.

Jackson's performance

On the next slide I have a summary of Jackson's performance over the last few years. On the left you see the growth in assets that we have achieved as a result of our expansion in VAs which has led to growth in underlying profits. This growth has been delivered in a counter cyclical manner as we expanded following a period of stock market turbulence that led to balance sheet problems for many of our peers. This growth has been, we believe, delivered at the right time in the economic cycle. To give you a number, at the end of 2011, 63% of Jackson's business was issued at a level lower than the S&P was at that time, and with the equity market rally that we have had since then, this situation has only improved further.

Jackson's cash objectives

We will not hesitate to be counter cyclical again if and when returns went below our target rate of return. Throughout this period of financial market turbulence and macroeconomic uncertainty, Jackson has maintained a robust capital position with an RBC ratio consistently over 400%. Our hedging programmes continue to perform effectively, and policy holder behaviour on VAs is tracking in line with our expectations and Nic will give you more colour on both the RBC and the policy holder behaviour later. So the significant growth that Jackson has achieved combined with its robust balance sheet and focus on value over volume, is now facilitating significantly higher net remittances to Group. As I said earlier, in my presentation, Jackson made a cash remittance of 322 million in 2011, but if you look at this on an annualised basis over three years, they have remitted an average of 450 million over 2009, 2010 and 2011. So they are about 75% in my mind on the way to achieve the objective of 200 by 2013. So it is a relevant number; it is really 150 versus 200.

The UK

Cash objectives

So moving now to the UK, the achievements of the UK team in terms of cash and capital management we brought over the last few years have contributed significantly to our progress and I wanted to illustrate that with one chart on the left. What you have there in red is new business strain and in blue, new business profit, and that tells a really interesting story in the UK. I have mentioned the repositioning of the annuity pricing, the attitude to bulk deals and you can see that what it has achieved is that whilst we have drastically reduced the new business strain we have been able to produce about the same level of new business profit which translates into very much improved returns on capital invested. We believe today that we are generating the highest IRRs in the UK life sector thanks to this picture.

So over the last few years the UK has maintained a strong capital position; you can see the inherited estate here in red at 6.1 billion, which is the backbone of our strength in the UK and has delivered remittances equivalent to 85% of its cash objectives for 2013 and it remains firmly on track to hit its target. Largely, I would say about the one-offs is that the other huge value that the UK brings us is really a secure and safe source of cash and you never appreciate more than in a downturn. We saw in 2008 and 2009, the optionality provided to our Group by the ownership of the UK is huge.

M&G

Moving now to M&G; it continued to perform very well in 2011 which was a challenging year for asset managers. Net flows in the UK were 4.3 billion in UK retail and they are industry-leading. The nearest competitor in the number two generated 1.8 billion net sales last year, so less than half of M&G's level. We have been number one in UK retail for the last 13 consecutive quarters and our market share of total UK retail sales for 2011 was 22.8% on a net basis, putting as well ahead of the competition. Over the last four years, and you see that on the right there, 2008 to 2011, M&G has risen from being the fifth largest player in the UK retail market in terms of funds under management, to being the second largest and our corresponding assets have almost trebled over this period top over 35 billion. This is a strong performance.

Strong track record

M&G's strong track record of asset accumulation and investment performance is translating into very favourable returns for Prudential's shareholders. It is highlighted by this slide, which shows the evolution of M&G's IFRS operating profit over time. In 2011, M&G reported record profits up 22% to 301 million which reflected the continued growth in managed assets and improvements in cost-income ratio that you can see in the bubbles at the bottom. In 2011, M&G contributed 15% of growth profits and 19% of net cash remittances.

Dividend

This is my final slide; I'll finish on the dividend. As you can see here, we were able to increase the dividends throughout the financial crises; the blue line is the FTSE over the period. Last year we raised the dividend higher by 20% recognising the significant improvement achieved in Group cash flow. In 2011, we have declared this morning, a total dividend of 25.19 pence per share, returning to a prudent rate of dividend growth of around 5%.

Summary

Before I pass on to Nic, I would like to summarise my three key messages this afternoon for you. First, our Asian platform is now the largest contributor to IFRS profits. Second, all of our businesses are now delivering material and sustainable amounts of growth. Third, we remain on track to achieve our 2013 growth and cash objectives. With that, I will now pass over to Nic.

Financial Review

Nic Nicandrou

Chief Financial Officer, Prudential plc

Headlines

Growth and cash

Thank you, Tidjane. Good afternoon, everyone. Let us start with the financial headlines for 2011, which are summarised on this slide. There are now two familiar themes of growth and cash. In 2011, we have built on our strong recent performance and once again all of our key growth indicators have moved forward positively. This is the third year in a row that we have reported record profits and these results have been achieved despite significant market headwinds in the second half of the year. In terms of cash, we have increased free surplus generation by 16% and net remittances to Group by 18%. This is the most tangible evidence of the progress we have made in executing our strategy, which has delivered higher earnings and is now translating into more cash.

Confidence, resilience and navigation

Behind these 2011 headlines are some highly significant trends, which I will highlight as I go through my presentation. These trends illustrate the on-going improvements in the quality of our earnings and underline our confidence in the prospects of our business as we move forward into 2012. A feature of these results is that they have been delivered against a low interest rate backdrop, which is traditionally a challenging environment for insurance. The resilience of both our results and capital metrics proves that we have successfully navigated the business in this environment.

Summary

I will provide you with more colour on how we have achieved this in my presentation, but in summary: on new business, we have been fanatical about optimising the balance between value creation and capital consumption and have adhered strictly to our IRR hurdle rates; on IFRS, we have made further progress in diversifying our sources of earnings and have continued to benefit from significant positive net flows; on free surplus and cash, the strong flow from our highly capital-generative business has outpaced the muted effects of the low interest rate environment and the high level of our free surplus stock has allowed cash to move more freely; and finally on capital, our on-going hedge effectiveness and our modest shareholder exposure to the Eurozone has ensured that our IGD, our UK with-profit estate and Jackson's RBC ratio have remained strong.

New business profit

Group level

Let us start with new business profit, our primary measure of growth in life insurance. At a Group level, we reported a 6% increase to £2,151 million, equivalent to a margin of 58% in line with last year. We delivered this increase in spite of the lower levels of capital invested in new business, which means that our 2011 IRRs were the highest ever achieved.

Asia

In Asia, new business profit increased 19% to £1,076 million and our margin advanced by five points to 65%. We continue to prioritise capital allocation to those products and geographies offering the highest returns, as measured by reference to IRRs. We had a strong finish to the year with NBP increasing by 27% in the fourth quarter, boosted by health and protection which made up 34% of sales in the quarter. As a result, all seven of our operations in the South East Asian sweet spot delivered record new business profit in 2011.

US

In the US our NBP was up 7% to £815 million, with variable annuities once again remaining our core focus. The 140 basis point drop in US Treasury yields created an eight percentage point drag on the total margin. The US team defended the product economics by taking pricing actions in late 2010 and again in mid-2011, which meant that the overall margin contraction was contained to just one percentage point. Therefore, by remaining disciplined in our approach to balancing risk, value and capital, we have preserved our excellent IRRs, kept margins well above historic levels and increased our overall new business profit.

UK

Turning to the UK, in 2011 there were fewer wholesale opportunities that met our strict financial criteria, resulting in a lower level of wholesale activity in the area compared to 2010. At a retail level, new business profit declined by 10% to £231 million. This was due to lower volumes of individual annuities in 2011, following changes to the minimum retirement age rules the previous year. Whilst this shift in business mix has translated into a lower retail margin of 32%, the IRR on the business that we backed with shareholder capital is higher than before at comfortably above 20% and remains, in my view, best in class.

Driving value creation

Staying with new business profit, I want to take a moment to illustrate the underlying progress that we have made on this important growth metric. I shall do this by looking at the key drivers of the movement in NBP between the two periods. On the left, in the grey column, you have the 2010 NBP translated at constant exchange rates which, as you will appreciate, were based on our view of future investment returns prevailing at that time. One year later, as a result of the drop in long-term yields, our expectation of future investment returns are lower and this has the effect of reducing the starting point for the year-on-year comparison by £103 million, as shown in the light blue bar. In the next three blocks you can see more clearly the underlying drivers of growth in new business profit, which were: £193 million from higher sales; £64 million from favourable changes to country product and channel mix; and £77 million from pricing changes implemented to sustain returns above our hurdle rates. This brings the NBP to £2,122 million, excluding bulks, in 2011. Not shown on this slide is the contribution to NBP from pure insurance products which in 2011 was £666 million, representing nearly a third of the total, having grown by 25% year-on-year.

Summary

In summary, we have driven this metric forward strongly, despite the market effects, and have improved its quality with a higher content from pure insurance.

IFRS earnings

Group overview

Moving to IFRS earnings, our headline operating profit was up 7% to £2,070 million. Our life businesses reported a headline increase in operating profit of 2%, despite the market headwinds in the second half of 2011 and the previously signposted effect of the US DAC charge. To provide you with a better appreciation of some of the key underlying trends, I analysed this performance by region and by source in the next few slides.

Asia

Looking at the analysis by region and starting with Asia, shown in red, life IFRS profit increased by 32% to £704 million. Asia is now the largest contributor to the Group's IFRS profit and, for the first time, all Asian life operations have made a positive contribution to the result.

US

Moving to the US, Jackson's headline IFRS operating profit was down by 17% but, as you can see from the breakout box on the slide, this was entirely due to the anticipated accounting impact relating to deferred acquisition costs. We flagged at the half-year that DAC amortisation would be temporarily higher than normal in 2011 as we effectively repay the benefit accrued in 2008 from our use of the mean reversion methodology. For the full year, this repayment amounted to £166 million and you can see that in the box. Furthermore, in line with our published sensitivities, we incurred an additional DAC charge of £66 million as the actual equity returns lagged our mean reversion assumption. Stripping out these items, Jackson's underlying gross profits increased by 13%, reflecting the strong separate account asset-growth achieved during the year.

UK

In the UK, the modest increase in life operating profit to 683 million disguises a stronger performance once the contribution from bulks is separated out, as illustrated in the breakout box.

Sources of income in IFRS earnings

Turning to the sources of IFRS earnings, and starting with the overall shape on this next slide, we have continued to make progress in diversifying our earnings base and in improving its resilience. You can see on this slide that insurance margins, shown in red, is now a greater proportion of the total and is increasing fast in absolute terms. It now accounts for 23% of earnings, contributing nearly 750 million to the IFRS result. This is a higher quality source of earnings, and Tidjane has said, as it is relatively immune to the investment market volatility. You can also see that fee business, in the middle blue, has increased by 26%, driven by a focus on VAs in Jackson and on unit linked in Asia.

Spread income, in the light blue, has also increased overall but now forms a smaller proportion of the total. This is a positive development as this is the most capital-intensive source of earnings. As we move forward, we expect the proportion from fee income and insurance to increase further over time. Securing a life insurance bolt-on in the US, which remains an objective, would augment the insurance element of the earnings, further enhancing its diversity and resilience.

Sources of earnings for each business

Asia

You can see, in the top left of the slide, that the total life income has increased by 19%, to 1,959 million. Expenses have also grown in the period but at a slower rate of 13%. As a result, we are seeing the strong influence of operational leverage within these results. Below, towards the right of the slide, you can see that the technical and other margin is up 19% to £1,676 million, and this source remains the key driver of our Asian income. It includes the profits that we make from our insurance business, which increased by 22% to £477 million, reflecting the growth in the book and positive claims experience. It also includes the margin that we make from premium deduction to cover costs, which is higher, at £1,199 million, in line with the growth in Asia's premium revenue.

US

Moving to the US, I referenced earlier the underlying improvement in the performance of the business, and you can see this on the top left in the slide. Jackson reported a 14% increase in life income, to £1,725 million, outpacing the 9% increase in expenses; like Asia, it is generating positive operational leverage. Spread income, shown on the left, has increased by 5% to £730 million and is equivalent to a spread of 258 basis points higher than last year. By taking proactive action to reduce crediting rates across the book during 2011, we have mitigated the effects of lower interest rates. However, a continuation of the current level of interest rates would result in a gradual decline of spread income, bringing this close to the 200 basis point mark over the next four years.

Moving along to the right, you can see that fee income has increased by 34% to £680 million. This increase is in line with the growth in Jackson's separate account balances, which in 2011 were boosted by £7 billion of positive net flows. I have already commented on the DAC effect, so I will not repeat this on the slide. I can confirm that, as we indicated at the November Investor Conference, we will be adopting the new US DAC accounting rules from next year and we will be restating this year's number to reflect the retrospective effects of this change. We have provided you with full disclosure of the before and after effects of this change in your packs, so I would refer you to those pages.

The impact on our Group earnings, and on our IFRS shareholder funds, is in line with our previous guidance to the market which I have summarised in the bottom right of this slide for ease of reference.

UK

In the UK, our main sources of income are annuities and with-profits. Spread income, on the left, was broadly unchanged at £247 million, with higher profits on individual annuities offsetting the lower contribution from bulks. The income from with-profits, shown on the right, was lower at £293 million, principally reflecting the business maturity profile.

Momentum

Finally, on IFRS profits, I want to share with you a slide which illustrates the momentum that we have as a Group on this metric. By taking total income minus total expenses before the effect of DAC, the chart shows how our life IFRS profits would look if we simply expensed all of our acquisition costs in the year in which they were incurred. In effect, this chart gives us an approximation on how our life insurance cash profits look since 2008. This analysis demonstrates the very strong pick-up in life income over this short period – shown in the light-blue bars – increasing 1.6 times, from £2.9 billion to £4.6 billion. This reflects two key drivers. One, the strongly positive life flows we have achieved over this period, and two, our very deliberate focus on products and geographies with highly attractive profit signatures, such as health and protection in Asia. Total expenses, shown in the dark-blue bars, have also increased, driven by acquisition costs, but at a much slower rate. The net effect is a near-doubling of cash profits over these three years, reflecting a combination of powerful economics but also operational leverage.

Asia's contribution and momentum, shown in red, may surprise some of you. Logically, a fast-growing business needs to recycle cash profits to finance its rising acquisition costs. Factors such as our scale, our propriety distribution and our disciplined approach to product design, have all contributed to that momentum that is depicted for Asia on this basis and are all important underpinnings to Asia's ability to continue to deliver both growth and cash.

Asset-management and other non-life businesses

Our asset-management and other non-life businesses have delivered an 18% increase in IFRS operating profit. This is a main contributor to its total, reporting highest-ever profits, up 22%. This reflects the continued growth in the value of managed assets, and ongoing improvements in the cost-income ratio.

Other income and expenses, shown in the bottom part of the slide, were broadly unchanged. You can see, in the breakout box, the ongoing costs incurred to implement the requirements of Solvency II, and we anticipate an equivalent level of spend in 2012.

Embedded value

As you can see from the chart on the left, total life profit is higher by 5% to £4,043 million. This is equivalent to a return on opening embedded value of 16%. The increase, again, is driven by Asia, up 22% to 1,759 million, which is now the largest contributor on this metric, also for the first time.

US and UK

Our US and UK businesses reported modest declines in EV profits. This reflects our practice of using the lower, end of 2011, economic assumptions to calculate the unwind on the opening embedded value. The 140 and 150 basis-point drops in US and UK yields have therefore depressed the in-force profitability of both businesses in 2011 relative to the previous year. This effect is more clearly illustrated, in the top right-hand chart, by looking at the part which is labelled 'unwind'. The growth in our business would have ordinarily broadly delivered a 200 million increase in the unwind, but the market effects have negated this resulting in a broadly flat year-on-year trend.

As was the case last year, we saw a continuation of net-positive experience compared to our operating assumptions. You can see this in the breakout box, on the right, which shows 347 million of experienced profits achieved in 2011. In addition, we have taken a 103 million benefit from factoring a modest proportion of this positive experience into our underlying assumptions. This next slide analyses the experience and assumption change profits by business. As you can see, all three regions have delivered a net-positive result in 2011.

Asia

In Asia, our overall embedded value remains robust. The main negative in 2011 was the charge relating to persistency and partial withdrawals, which amounted to £130 million. In fact, £118 million of this total related to Malaysia, with all other businesses reporting a very modest £12 million negative, which for these businesses represents a big improvement, evidencing the significant progress made on customer retention initiatives.

In Malaysia, the negative experience is in fact contained to a specific savings rider which offers customers the option to withdraw cash without disturbing the flows of the underlying host product. Over the last two years we have experienced higher than anticipated withdrawals on this rider, particularly from the group of customers sitting on high capital gains. We have now adjusted our partial withdrawal assumptions for this group to more closely reflect the actual experience. I should emphasise that, whilst the withdrawals from this rider are higher than expected, the existence of this option has delivered better overall customer retention. By way of illustration, 99% of the policies that have a partial withdrawal continue to remain in force.

Turning to the £200 million positive for Asia, £184 million of this reflects the continuation of favourable mortality and morbidity claims experience, particularly in Hong Kong, Singapore, Malaysia and Indonesia.

US

Jackson's experience continues to reflect the positive spread effect of swap transactions entered into last year. It is also pleasing to see that this business has continued to generate other operating profits despite the tough 2011 macroeconomic backdrop.

UK

The same is also true of the UK, where the main benefit came from the impact of reductions in the UK Corporation Tax Rate.

Items below operating profit

Before I move on to capital, I would like to briefly summarise the movements of items below operating profit for both IFRS and EV. From an IFRS point of view, we see that the impact of investment variance has been modest during 2011, at £-0.1 billion after tax. The on-going effectiveness of our VA hedging programme, coupled with our close matching of annuity assets and liabilities from both a cash and a duration perspective meant that our 2011 earnings were relatively insensitive to the drop in interest rates. Therefore, our IFRS net profit for the year amounted to a positive £1.5 billion, equivalent to 59 pence per share.

As you can see further down the table, we benefitted from unrealised gains on Jackson's fixed income portfolio of £0.3 billion after tax. After deducting the cash dividend payments made in the year, our retained earnings amounted to £1.1 billion, increasing our IFRS equity by 14% to £9.1 billion. From an EV point of view, investment variances were £-0.8 billion after tax. This is primarily the result of the flat-to-negative stock market returns in 2011, which meant that we did not achieve our equity return assumptions. EV profit for the year was nevertheless £2.1 billion, and after the dividend payment, our retained earnings on this basis were £1.4 billion, to finish the year 8% higher at £19.6 billion, equivalent to 771 pence per share. The key message here is the resilience of our total earnings to market volatility, which has seen our shareholders funds continue to move forward positively.

Cash and capital

Free surplus stock

I would now like to turn to cash and capital. We will start by taking a look at the evolution of free surplus, which over the course of the year, has increased from £3.3 billion, shown in the grey bar on the left, to £3.4 billion, shown on the right. As you move from left to right, you can see the £2,536 million, which represents the underlying free surplus generated by our existing book of business, with material contributions from all the businesses. We used £553 million to write new business. This is equivalent to a reinvestment rate of 22%, which is below the 27% rate that we reported in 2010. This reduction reflects both the steps taken to improve capital consumption that Tidjane has already covered, as well as a particularly favourable 2011 geography and product mix. Changes to this mix may cause the rate to increase as we move forward. Further along, you can see that market effects had a negative impact of £531 million, which was nevertheless comfortably covered by the operating free surplus generated in the year. Businesses remitted £1,105 million, which meant that pretty much all of the 2011 free surplus generated net of market effects that were upstreamed to close the year at £3.4 billion.

The key messages here are as follows: one, the business continues to be highly capital generative after financing growth; and two, that the high stock of free surplus has meant that despite the adverse market impacts, regulators have not restricted the flow of cash to Group, which, at £1.1 billion, was the highest ever.

Future free surplus emergence

Last year, we provided you with some new disclosures relating to the undiscounted new business and VIF monetisation profiles for each of our businesses. This year, we have repeated these disclosures and, in the case of the in-force, we have extended these further to analyse the movement between the two year-end profiles. On this slide, the dark blue bars represent the end 2011 VIF monetisation profile as reported last year. The grey bar on the left shows the actual VIF monetised in 2011, which at £2.1 billion was higher than the expected £1.9 billion due to positive operating experience. The light blue bars represent the updated profile for the end-2010 in-force, one year later. As you can see, it is marginally lower than before, by about £0.1 billion each year. This reflects the impact of a 1 to 1.5% downward revision in future expected returns caused by the drop in yields globally. This in turn reduces our future profit expectations on unit linked, separate account, and with-profits business, where our income is influenced by future investment returns.

Resilience

The point I want to emphasise, though, is resilience. If you consider how big and how significant the interest rate drop has been, the decline in our expected free surplus profile is relatively modest. This reflects the defensive nature of our book and the fact that a significant proportion of this free surplus relates to insurance, which is relatively immune to market movements. It also reflects the near-absence of traditional interest rate guarantee business. When we now add the free surplus from the 2011 new business shown in red, we have an overall profile that is higher than the one that we started with. This picture is a further illustration of the resilience of our model, the momentum of the business and reinforces our confidence in our ability to deliver our 2013 targets.

Looking at the balance sheet, the message here is simple. We remain strongly capitalised and defensively positioned. The Group's IGD surplus at the end of December is estimated at £4 billion, equivalent to a cover of 275%. I appreciate that this is a Solvency I ratio, but I am afraid that at this stage, we cannot provide you with a Solvency II ratio, given the fluidity of the draft guidance. Let me reassure you that we are working very hard to shape the right outcome for our business, our customers and our shareholders. Our central cash resources now stand at £1.2 billion. We have a strong cash and liquidity position and the next call on our debt is not until 2014. We maintained a defensive credit position throughout the Group in 2011. In the US, net unrealised gains at the end of the year have increased to £2.1 billion and impairments in Jackson over the course of the year were only £62 million.

We have maintained our prudent stance in relation to UK annuity credit default reserves, which at the end of 2011, stood at £2 billion. Across the board, our balance sheet is conservatively positioned. Jackson's hedging programme continues to perform very effectively and policyholder behaviour on variable annuities is tracking in line with our assumptions. As you know, we have minimal shareholder exposure to European peripheral, sovereign and banking debt.

Jackson

We will now take a closer look at these last few points on the next slides. Jackson maintained a strong RBC since the financial crisis and has ended 2011 with a ratio of 429%. In 2011, we saw volatile equity markets and a significant drop in long-term yields, but our resilient hedging programme has helped mitigate the impact of these market effects. The growth in the asset base since 2008 has enabled Jackson to generate higher amounts of capital each year. We started the year with a stat capital base of $4.4 billion and through 2011, our capital formation has been strong. Jackson generated sufficient stat profits in the year to cover both the $0.5 billion remittance to Group and provide risk capital to support business growth. The market effects increased the value of our living and death benefit guarantee reserves, but our macro-hedging programme was effective in mitigating these increases, and we closed the year at a broadly unchanged level of stat capital.

In reporting our year-end RBC ratio of 429%, we have elected to retain the permitted practice for interest rate swaps, which has the effect of carrying these swaps at cost. As a result, $475 million of positive marks on these swaps are excluded from the calculation. If we were to include these positive marks, the end-2011 RBC ratio would increase to 482%, which is broadly in line with the equivalent ratio at the end of 2010.

Impact of policyholder behaviour assumptions

At the Investor Conference in KL, we said that we would provide you with sensitivities relating to policyholder behaviour in our US variable annuity business. Before covering the sensitivities, let me just comment on the current lapse in utilisation assumptions. Our philosophy is to both price and reserve conservatively, assuming that policyholders will behave very efficiently. The methods that we use to track and analyse emerging experience benchmark favourably when compared to those of our peers. Finally, our actual lapse in utilisation experience across the VA book continues to track within our pricing and reserving assumptions.

The chart on this slide shows the impact on both IFRS equity and on US statutory capital of stressing policyholder behaviour assumptions in a very severe manner. The red bars illustrate the impact of halving the lapse rates for in-the-money policies from our already conservative levels, which would mean that the ultimate lapse rates for significantly in-the-money policies are less than 2%, clearly an extremely low level. This would have an indicative impact of $310 million on IFRS equity and $365 million on US stat capital. In the blue bars, you see the impact of increasing utilisation rates across the board by an absolute 10% to bring these to the 90% level. This would have an indicative impact of $160 million on IFRS equity and $375 million on US statutory. Therefore, even in the event of an extreme deterioration in policyholder behaviour, the impact on capital and shareholders' equity would be manageable. This is because our assumptions are and always have been set at conservative levels and because we have always focused on GMWB living benefits, which we believe have significantly less risk of adverse policyholder behaviour than other forms of living benefit variable annuities.

In my final slide, I provide you with an update on our shareholder exposure to sovereign and banking debt in Greece, Ireland, Italy, Portugal and Spain. You can see that our total exposure remains small at only £372 million, and I would remind you that these holdings sit primarily in our UK annuity business, which is carrying £2 billion of credit default reserves.

Concluding remarks

So, in conclusion, Prudential has delivered another strong performance in 2011 across all of our financial metrics. What is particularly pleasing is that behind the headlines, there are some highly significant trends, which evidence the quality, consistency and resilience of our earnings and underline our confidence in the future prospects of our business. Thank you. I will now hand you back to Tidjane.

Outlook

Tidjane Thiam

Chief Executive Officer

Thanks, Nic. The Group has delivered a good performance in 2011 across all of our businesses. 2011 was a challenging year, and as we look at 2012, there are uncertainties ahead of us. A number of important steps have been taken in Europe to address the challenges of the Eurozone. That said, those challenges will remain a feature of 2012 and are unlikely to be resolved in the next 12 months. However, there are clear signs of economic recovery coming from the US and, if confirmed, this would provide a significant boost to all economies. In this context, we have achieved two important milestones in 2011: Asia has become the largest contributor to IFRS while continuing to grow strongly, and each of our four businesses is now making material net remittances to the Group.

Over the last few years, we have built a track record of performance across our key financial metrics and we have here a new business profit, IFRS profit, cash and free surplus. You see a similar shape. The point I want to make here is that these results have been delivered during two very contrasted periods. In 2005, 2006 and 2007, we had a very benign macroeconomic environment, which was very favourable to our sector. In 2008, 2009, 2010 and 2011, we have had a much more challenging environment to put in perspective the delivery here. It is a testament to the quality of our franchises and our people that we have been able to continue to grow profitably in the face of such strong economic headwinds, and this gives you a sense of the potential of this company should the economic conditions improve.

We have good momentum within our businesses, a robust and defensively positioned balance sheet, and significant exposure to one of the most attractive regions in the global economy, namely South East Asia. As we said in our statement this morning, we have made a positive start to 2012. Our business has performed well in challenging times and is well-positioned to perform even better as economic conditions improve, and I believe they are doing so. So, thank you very much and over to you now for questions. Thank you.

Q&A

Raghu Hariharan (Citi): I have three questions. The first one was on the credit default reserve impact on your IGD and your EV, could you let us know what the impact would be if you were to hold the credit default reserve assumption at the same level, i.e. do not assume a higher liquidity premium?

The second question was really on Hong Kong margins. I see that Hong Kong margins fell from 74% to 66%. Could you add some colour on whether this is a one-off effect or a longer-term trend that you are seeing in Hong Kong, please?

The third one is actually for Mike on the US. It is a request of three data points. The first one is: what are the levels of lapsed rates that you are seeing in variable annuities? As you know, most of your US peers and some of your European peers disclosed this number. Secondly, what was the change in the net amount of risk, year-over-year? And, thirdly, what proportion of your VA book is actually within the surrender charge period?

Tidjane Thiam: Let's go with IGD. Nic, do you want to take this?

Nic Nicandrou: I don't have an answer to that question; but all I would remind you is that 2 billion reserve against the 24 billion investment portfolio that we have in the UK annuities is roughly equivalent to a default rate of 7.6% across the whole portfolio. I will put to you that we are very comfortably reserved for a large variety of scenarios if not most. So, we are comfortable with the amounts that we carry in that regard.

Raghu Hariharan: Sorry, just on the liquidity premium, because there is an agreed methodology which is 50% of spreads or swaps less 40 bps which is what AXA, Zurich and all these guys use. So, I was just wondering whether you can actually take credit for the entire rise in spreads over the year into your IGD, and into your EV? That was really the question.

Nic Nicandrou: The amount of credit that we take in our IGD or in our Solvency I numbers in the UK is, at the end of the day, down to our judgement and down to the regulator's judgement as to what the appropriate level is. We are comfortable, as I indicated to you, in where we are. In relation to EV, you know our basis and you know our views on the market consistent approach. We continue to report on the same basis as we always have done in that regard.

Tidjane Thiam: This takes some of us back to 2008 and the MCEV debate. We had a very clear stance. Those assumptions, for us, are not appropriate. We are very comfortable with our position. It served us well through our crisis. We think we are at an appropriate level of prudence. We do not believe that 50% is a fair assessment of credit risk at every point in the credit cycle. When spreads grow at certain levels, you cannot just fix the percentage of the spread. We think that is inappropriate; that is a house view. The Hong Kong margin is 74/66.

Barry Stowe (Executive Director, Prudential): It is not terribly complicated. It largely has to do with product mix. Pete, do you want to add some colour to it?

Pete Lloyd: There are probably two things going on. One, there are the economic assumptions which, with lower interest rates, you pull down the assumed bonus rates and therefore the shareholder transfers on the par business. Then, a bit of product mix in terms of participating bonus versus unit-linked.

Tidjane Thiam: Again, we do not have margin in our KPIs. We drive NBP. Very clearly, when I talk to Barry or Mike, what we discuss is NBP. I want your NBP to go here. After that, I honestly could not care less about your prices, your volume and your mix. You have got your target. You have got your NBP target and you drive your business according to that. Frankly, margins move. We are not just sensitive to that. As long as we deliver on the targets we have given you, which are IFRS and NBP.

Barry Stowe: One of the dynamics you do see as business moves, if you get a little bit of a shift from linked to with-profits, often that is indicative of a slight strengthening of the bank channel, which is what has happened in Hong Kong. While it is important to remember that we do attach riders to the with-profits business, it is generally not quite as rich a mix as with the linked.

Tidjane Thiam: But, from a capital perspective it is also nice to have some benefits because it is with-profit.

Barry Stowe: But as Tidjane says the definition of success is absolute NBP.

Tidjane Thiam: Oh US, lapse rate and surrender charge. Mike, do you want to take this?

Mike Wells: Have we disclosed our actual lapse rates?

Tidjane Thiam: No.

Nic Nicandrou: We will happily cover those. The assumptions that we have are around the 1 to 1.5% mark in the surrender charge period; we then allow for a lapse shock of 20 to 25. Then, after that period, they broadly halve. That is for policies that are out of the money. Policies that are in the money, for example a policy that is 30% in the money, we would apply a third of those rates in our pricing and reserving. In the stress test that we showed we then halve those.

Mike Wells: On the surrender charge issue, the thing to think about with competitors is, if you have a dollar-for-dollar withdrawal structure on the contract, you are going to get high utilisation surrenders during the surrender charge period. We have very little of that. There is about three billion of older stuff, but it is not the product we typically sell. We do not have that same in-surrender demand you are seeing with some of the competitors. Do you want to give the actual amount of risk?

Chad Myers: The total amount of risk for the year went up about two billion on the VA. Then, in terms of your question, the in-surrender charge is – between 80 and 85% of the book are still on surrender charge.

Andy Hughes (Exane BNP Paribas): Dare I suggest that there is a slide missing from the pack? I know you give out a lot of slides, but there is one I would like to see explained, which would help me out a lot. I know you are highlighting the growth in Asia as being highly significant in terms of APE, but one of my issues is – when I turn to page 68 of the IFRS disclosures – when you give the in-force premium income for Asia, which – as you point out – is a driver of the profitability under IFRS of certainly the insurance margin, the numbers look very different. Just highlighting the linked one which is 1.1 billion of renewable premium income last year in 2010, but then you have reported 1.163 – a growth of 33 million last year in premium income. I understand some of this is India, but there is a huge difference between what you are reporting as new business premium income and what you are reporting as renewable premium income. I was just wondering if you could explain what was going on.

The second question is, if I look at these renewable premium income figures and relate them back to the insurance margin of 477 million, I have a question of how profitable the rider actually is because, if you are reporting in here three billion of premium income across Asia in terms of renewable in-force premium, then you are making 477 million of insurance margin, not all of that income is rider, so is there something exceptional about the insurance margin that you have been reporting in the last few years, or is the rider roughly 50% profit on your protection contracts? Thank you.

Tidjane Thiam: Thank you. I think you largely answered your question on the premiums.

Nic Nicandrou: Just to clarify what those disclosures are, they are actually disclosures around the movement of the liability reserves. That is the first point to make. That is not the same as premium because, in arriving, the difference between the actual premium and what we disclose in that reconciliation reflect charges that we deduct upfront from the products.

The specific trend that you highlighted in relation to unit linked is explained by India. I appreciate that there are 250-odd pages of disclosure, but I can give you the ex-India numbers: 922 for 2011, 781 for 2010. Therefore, you see the 140 million or 18% increase in line with the trends you have seen in terms of growth across the business that we sell.

Andy Hughes: That is still a lot lower than the 1.2 billion of APE that you are reporting in Asia.

Nic Nicandrou: The amounts that we report in Asia are spread across a whole host of products, including with-profits, including unit-linked, including protection. The underlying point is that the business is growing. It's growing fast. The nature of the products that we sell has very attractive profitability characteristics. You have seen that come through not only in the growth of the balance sheet, which we have disclosed, not only in the growth of profits, but also in cash.

Tidjane Thiam: We can keep it pretty simple. The number you are referring to – ex India grew 18%; do you have a problem with that level of growth or not? If not, we can move to the next point. So, 18% growth. It is a fair question. We are just saying that it is India.

Andy Hughes: Relative to the 1.2 billion, it is even 18%...

Tidjane Thiam: I think we can take this off-line after this, as I feel there are a lot of questions in the room. You also had a question on renewable premiums.

Andy Hughes: The question was about the margin. Just looking at this premium income number and comparing it to the insurance margin reported, so the 477 compares to 3 billion of renewable premium you are reporting across Asia, all that 3 billion is not riders at all. Riders will be a small proportion of the 3 billion premium income, because we are assuming that that is actually premium income.

Barry Stowe: An increasing percentage.

Andy Hughes: But that suggests to me that the rider profitability is very high.

Nic Nicandrou: You need to factor into that comparison the health and protection business share of operating expenses and acquisition costs. Only then can you express, and do the sums that you are describing & to express an underlying return on the premiums that we deliver. That is the difference in your calculation.

Tidjane Thiam: I am happy to take this off-line. At a high level we do not disclose returns by products. You can judge profitability of a business by looking at the capital that goes in at the payback and how fast the cash comes and what we translate at a global level. We have never disaggregated and commented line by line.

Barry Stowe: It ought to be clear when you look at the strain, the level of profitability, what has happened over the last few years with margins, the cash that has been generated, what has changed in 2011 versus 2005 or 2006. It is clear that the profile of health and protection business is certainly a part of the story.

Tidjane Thiam: We have many worries, but not that one. We are very confident that the health and protection business in Asia covers its cost of capital many times.

Jon Hocking (Morgan Stanley): I have three questions on the US. You mentioned the US deal which we have not heard for a while. I wondered if you could give us some idea of the appetite there in terms of liability mix, size, how you might finance it, whether there is a scenario in which you would do something more transformational in the US.

Secondly, in terms of market share, are you signalling in the US that you are going to grow in line with the market from here? Within that, is there any more distribution that you are going to add in the US? Is this share with distribution you have already got? Or are you going to maintain the new share and distribution you might add in the future?

On the lapse sensitivity you have given, I see that is for contracts that are already in the money. If you did that calculation again but combined it with a market shock, say S&P down 25%, how would those numbers look? Are they still immaterial numbers?

Mike Wells: I am hesitant to sit here and talk about bolt-ons, just having been here for sixteen years. I think we have been very public, that we would like to do a bolt-on in the US. The parameters would be with US capital. If would be life-centric. It would be accretive. It would be competitive with other returns around the Group. We are pursuing that objective. Next time we talk about it, I would love to be able to explain a deal to you. We have been talking about this one for a while, I know. There are a number of properties in the US that are available for various reasons and we keep looking at them and will continue to do so. We will only do things that make sense.

Tidjane Thiam: Part of the reason why it has been difficult is exactly what Mike described. We are uncompromising on both criteria. We have looked at many things but none has materialized yet. Our appetite is intact. It is something we would like to do. We think it makes a lot of sense strategically. It is a short payback deal with very high IRR, so we have an appetite for it. It would be financeable on Jackson's own resources.

Market share is always a difficult question for us in the US because, as I have said a few times, we drive IRR. We do not really drive volume. Volume in the US is dependent on a number of things. One, where we price our product and how we structure it. Two, what the competition does. You have seen from quarter to quarter huge swings in what they do, whether there is a fire sale going on or a major product change, people withdrawing from the market, etcetera. Then there is the S&P. So, frankly, it would take a brave person, faced with those uncertainties, to give any kind of volume prediction. We are clear on our appetite. We say what returns are attractive. We have the capital to write for business. Given our lack of control on either the actions of our competitors or the S&P we have to be relatively modest in volume predictions. Our ambition is to be a significant player, provided the market conditions allow us to do that.

Mike Wells: Jon, the other thing you are going to see is that Met has been specific on a premium target that they are looking to. We think the balance of the sales that they and Sun had, you will probably see distributed more through the top five than you would see in the top three. So that will be a change from previous conversations and last year. We are very competitive. We like our pricing. We have good distribution. A lot of the distribution we had in the last few years is still emerging. It takes a long time to get to every branch of some of these wirehouses and develop the relationships you need over time. We are very happy with the results there, but there is a lot of upside. We do not feel that we need a distribution relationship change or step change to capture a competitive element in the market.

Tidjane Thiam: The best way to become big in VAs is not to try to become big. That has been our experience in the recent past. Always run into trouble and you get a windfall basically, if you are disciplined.

Nic Nicandrou: I do not have those numbers, but the only thing I would say is when we set the fees that we charge for the guarantees, we set those to be profitable, or at least to cover a large number of scenarios. We buy the hedging to mitigate the impacts on that. So, part of the answer to your question is that, in that scenario, the hedging would mitigate quite a lot of the impact that would have on both IFRS and on the statutory capital.

Tidjane Thiam: A lot of the market shock would be mitigated.

Nic Nicandrou: And the assumptions, as we stress it, they are set dynamically from a lapsation perspective.

James Pearce (UBS): First of all, could you talk about the balance of capital requirements for new business and dividends? You seem to need less and less capital for new business but you are not hitting your pay-out ratio on the dividend. How should we understand the equilibrium there? Second, someone from the Bank of England today is talking about being worried about insurers becoming shadow banks. What does that mean for Pru capital and stock lending? And how do you feel the regulatory environment is developing in the UK? Also, could you talk about the effect on European fund flows of LTRO2, please?

Tidjane Thiam: Thank you very much, James. Our figures have been quite clear. It is ultimately to be able to pay a growing dividend. The approach we have taken to that is to have a policy that is extremely safe. We do not look in a static way; we look at it dynamically. We stress test it very severely. If you do a static analysis our dividend may not look that generous considering the improvement in the position of the Group. We always try to keep it clear between the earnings growth rate and the dividend growth rate. It is a very wise thing to try to maintain, to never let the dividend growth rate get ahead of your earnings growth rate. There is a lag there, if you wish. You have seen that the performance in 2007, 2008 and 2009 finally had led to a significant rebase in 2010. We calibrated the rebase exactly by looking at the scenarios and computing how safe we would be post rebase. That is how we look at it. I think you should look on it as an upside as the position of the Group improves, as the cash generation improves, as the balance sheet improves, the possibility to safely increase the dividend increases. Regarding shadow banks, John, would you like to say a few words about that?

John Foley (Group Chief Risk Officer, Prudential): I am not sure that the impact falls within the definition of shadow banks. Obviously, our regulator is very aware of what PRU CAP does and has not given us any hint that that is something that would come under any scrutiny. I think, from the point of view of securities lending, the general view around the market and amongst the regulatory community is that that is a very positive thing for the market and provides liquidity into the market. Again, I am not sure that is going to fall foul of any upcoming definitions around shadow banking.

Tidjane Thiam: I think what was referred to was very specific. To get money from share lending and then using that to invest in risky activities is not something that we do. The FSA stays very close to that and we just had our review and it is comfortable. There is a question for Michael on LTRO.

Michael McLintock (Executive Director, Prudential): Yes there has been a noticeable pick up in European fund flows over the last few months.

Toby Langley (CFA Director, Barclays Capital): I have one question for Mike, one for Rob and one for Michael. The first one for you Mike; we noticed last week you launched a new product called Elite Access and I am quite keen to know what you think the prospects of that product are in that market. What do you think of no-loads base. There are lot of big players in that market; what makes you think it will hold a candle to them and what do you think it will grow going forwards?

For Rob, ABI guidelines on annuities (open market annuities) how are they going to affect your business? Have you started to suffer at all yet from a much more proactive attitude to the open market option?

And for Michael: Why should we not be worried about RDR class shares and the implications there for your AMC charge on your market leading position in that market?

Mike Wells: Yes, let me start with a challenge. I think Fidelity is probably one of our best US competitors, all kidding aside. In the retirement space they create some very good solutions and we still see ourselves as having that as our primary role in business, so we do watch what they do carefully. Elite Access is actually not a 'no-load' product, it is a no-guarantee product and the intent is to give the consumers access to alternative asset management strategies that are not available at the retail level, and so it is a fairly unique set of products that has just launched. It is in its early days, but 74% of our selling group has it available to them, which gives you an idea of the firms who have signed selling agreements. Some of the firms have various processes to approve that and I have not asked their permission to tell you who is in and who is out – I probably should have done that but three quarters of them have said yes and most of the firms we do business with now for the retail consumer recommended allocations have alternative asset classes; in that it is somewhere between 15 and 30% of the clients suggested allocation based on age. It is very difficult in the US to access those products effectively and conveniently and we are seen as a good source for that. So can we wholesale and support a complicated product to the advisor network? I think we can and I think we would give them a run for their money.

To your point about competitors the no-load space for VAs we do not think is mature yet, and we do not think is a place to play our assets and resources yet. I think there are a couple of reasons; they want the guarantees and so effectively we are going to let someone have access to our balance sheet but not pickup any of the fee revenue on the assets, which is a business proposition we do not like. Secondly, the liquidity and volatility you are talking about from a hedging point of view, you really should be hedging those to the day, and you get into some very inefficient models from a hedging point of view: every guarantee you have written is liquid, every hour of the day. So that tends to create a more expensive product if it is price correctly, so we are going to let those go for a while and watch that space develop and see how they mature. But we are pretty pleased with Elite Access; it is not supposed to be *the* new product, it is supposed to be broadening our shelf-space and the initial reaction from the advisors is good, they like it. They have never sold anything like it, but they like it.

Toby Langley: To fully capture the value chain here, do you not have to ramp up your product proposition as well?

Mike Wells: I am sorry; one more time?

Toby Langley: Your immediate annuity proposition – do you not have to ramp that up to capture the full value chain?

Mike Wells: No, we still do not have that involved in this product. The interest rate environment, there is some pick up in the SPIA products in the US, but you still do not find retirees in the US buying guaranteed income streams in the traditional sense where someone retires with a pension plan. What you are seeing now though is quite a few of the competing VA products effectively being a variable immediate annuity. That is the way a lot of the clients are accessing that benefit. Met's GMIB would be a good example of an equity-linked immediate annuity.

Rob Devey (Executive Director, Prudential): On the open market option, to your final question first Toby – we have not seen any change in terms of the take up rates. We have to remind ourselves here what the average annuitant looks like: they have a pot of between £15-20,000, depending on what the markets look like. These are pretty small pots; typically they are a long-term Prudential customer; they have very high affiliation with the brand. So I think the changes that we have been involved in developing we are comfortable with. We think it makes it a little bit trickier for our customers and slightly less efficient – we have a very efficient model for taking small pots and turning them into relatively small annuities – so it becomes slightly less efficient but that is at the margin we do not think we will see any change that comes out of that change. We already know, because we tested our customers, 90% of them are aware that they can shop around for an annuity.

Tidjane Thiam: Yes and Rob's teams make that very clear.

Rob Devey: So we will increase information and will decrease convenience for people for whom generally this is small part of their life and they would like convenience, but that is fine. We have other ways around to try to minimise the impact of that for our customers.

Tidjane Thiam: We think it is a good thing, we are very supportive of what the ABI does, we are very involved and we understand in this regulated environment that it is important that people feel comfortable and they are getting the best value possible, so we are supportive of the industry's efforts.

Michael McLintock: Yes, other than passive funds all the evidence is that people want to buy performance net of fees, so as long as they are getting a performance net of fee that is superior, that is what they want and that is what they will pay for. In an RDR world we would expect to launch share classes that no longer are full of commission to intermediaries; in other words the charge will come down by the amount of commission that would otherwise have been paid. So we are likely to launch share classes carrying fees of 75-100 basis points and we would expect that to be entirely competitive and I would be very surprised if the premium alpha-driven investment funds were launching it at fee rates below that.

Toby Langley: So you expect retained AMC to roughly be neutral with where you are now?

Michael McLintock: Roughly, yes.

Nicholas Holmes (Nomura Group): Two questions, the first on variable annuities. I wondered whether you can tell us what you think the economic performance of the hedge programme was last year. I believe that your accounting SOP 0301, or its latest update, is not what you would call an economic measure – correct me if I am wrong – and so other peers in the VA space report economic performance and suffered quite considerable losses last year, and I noticed that there is £432 million in your surplus, this is on p.45, which you describe as a sort of hedge loss I think. My question is – that actually the economic loss and a follow up to that would be if it is – why do you not put it in operating earnings as the peer group does, not in America but as the continental European peer group does? And secondly, on the growth profile for the Group. You have given us lots of growth targets but what about the rest of the Group. Can you elaborate; can you tell us what sort of growth you would like to see? I would suggest 6% profit growth is not actually very high growth – is this the sort of growth you would expect over the next couple of years? Or are you targeting significantly higher? Thank you.

Tidjane Thiam: I will take the second question later, but let's deal with VAs.

Nic Nicandrou: You are right that the income statement includes the movement in reserves on the SOP 0301 basis but what you should do is what we have guided you to do in the past. If you want to get a good appreciation of what is happening on an economic basis look at the RBC and I have explained to you in taking you through that slide, that the capital at the end of the year was the same as the one at the beginning of the year and we have two things going through: one is the operating profit generation offset by remittances and financing growth, and then the guarantee reserves offset by the positive effects of the hedging programme. That is a lens.

We have on slide 72 also repeated some of the disclosure that we gave you last year that would show you what would happen if we put all our liabilities on a FAS 157 basis and you see the effect there but you would have to remember that at that point we would unlock the assumption in relation to the fees that we can take credit against those additional liabilities, and net our quasi-economic liabilities are the same as our currently reported GAAP liabilities.

On your point on the free surplus, the 432, what you are seeing there is, what I described in relation to the RBC, that in effect we have not given ourselves credit for the positive marks on the swap programme, and in the same way as that has reduced the reported RBC, we have retained the symmetry and that 432 also reflects in essence not recognising the mark on those swaps.

Tidjane Thiam: It is very simple. The permitted practices helped us a lot in the crisis.. It is hurting our RBC this time; we could have gone back to the regulator to say we want to do away with our permitted practice but really with a hedging programme you do not want to be going back and forth to the regulator when it suits you on an accounting basis to remove it.

So we made a decision of saying we will leave it in place, we will take a hit and if the question comes we will explain. That is what it is.

Nicholas Holmes: So, in conclusion, what would you say was the economic performance of the hedging programme – of the variable annuity book because we have all these other companies?

Nic Nicandrou: Through the RBC lens it was very effective in that it mitigated the impact on the reserves.

Tidjane Thiam: On growth, I understand your frustration, but I will also be very open – if you go back to my script when I presented the six targets, I said that is what we ask you to judge us on. And as you rightly underlined, there is no growth target other than for Asia, because we are very confident that that growth will be profitable. If you are able to convince me with the same degree of certainty that any other areas would be profitable, I would then give you a growth target. We managed to grow profit, we are very confident in driving profit in Asia; it has gone up 32%.

For the rest, I explained very well the dynamic in VAs. It is very self-defeating to set a growth target in VAs. I do not believe, and I think I have said this on the record, in setting a growth target in cyclical businesses – I think that is just silly. If a business is cyclical and you give yourself a volume target that is a recipe for disaster because others are watching your behaviour, and it does not make any sense economically. You will write the business if it is profitable, you will not write it if it is not profitable, and that profitability will be determined largely by what others do. You have to set your product parameters at a level that you are comfortable with almost whatever volume is written and we have this downward flexibility because our costs are so low, we never have to chase volume for fixed costs and that is a very good position to be in.

I often say we are like Saudi Arabian oil; we make at $5 a barrel and all the rest is up-side. You have to be in a position where you are comfortable and in good times we will put all the capital in and write it, but if competition comes back or people behave irrationally – almost if you think about it, it is an invitation for people to misbehave because you are on the hook; you know exactly what you have to do because you have to hit your volume target and you lose your flexibility. That is very poor management.

So really I am not going to stand here and give you a growth target in a cyclical activity that we do not control where volumes are largely dependent on the equity market level, the same way I will never give you a forecast on the equity market level. So we tell you how we operate; the targets are set and the volume will be exposed. We are never going to tell you that our target for Q1 is X because that is putting ourselves on the hook. So we accept that the top line numbers for the Group might not look great, but I think we are very clear with you that we do not think we should be judged by that; that is not the strategy we are following. We want to increase the share price in the market for the Group, not the top line. And we believe that the strategy that we are following will deliver that. It may produce some lack-lustre top line numbers sometimes but we do not really mind, as long as Asia – which is what we are focusing on – is driving forward the rest is opportunistic and we are happy to get it when we can.

For the UK we do not really have growth aspirations, for M&G it is a bit cyclical again and very dependent on the markets. You cannot set a volume target for an asset manager; products vary depending on the economic cycle, it depends on what the Bank of England is going to do in the second half of 2012 – I cannot give you a target for M&G, I do not know. And VAs are in the same category so it is very clear that we are about value not volume and we are comfortable here.

Nicholas Holmes: Thank you very much.

Andrew Crean (Autonomous): Good afternoon, Andrew Crean at Autonomous. I have three questions. US spread income variances which is positive, at what basis points would that be neutral, is that 175 or 200? That is the first question.

The second question, I see you were in the papers protesting about Solvency II, possibly protesting too much given the length of time on equivalence, but I assume this relative to the US. In order for investors to be able to judge what sort of potential threat this is to your US business, could you tell us on a QIS5 reading whether your US business had enough capital in it?

Thirdly, when I read the first page of the statement it was Asia, Asia, Asia, followed by more Asia and then a couple of references to the US and the UK. Are you trying to build an Asian shareholder base? What proportions of your shareholders are now local Asians? Are you going to make a special effort this year now that a greater proportion of the business is from Asia to sell the Prudential story into Asia?

Mike Wells: The first one – 200.

Tidjane Thiam: Solvency II, as you said, we have been in the papers against our will because, I can say with absolutely a straight face, we have been in those conversations for a while and they never made their way to the papers because there was no outside force. We have been talking to the government forever and the regulator, so we were forced into an announcement, which we made. We were very clear in the announcement that it is contingency planning, that there is an uncomfortable level of uncertainty of a Solvency II and the range of potential outcomes is outside our risk appetite. As we get closer to the date it is prudent to examine other options and we have mentioned domicile as one of those other options.

The regulator is very aware of that; it is something they were asking us to do. They have been saying, as a good regulator should do, 'What is your plan B?' Actually it is not a question just asked to us; it is asked to every other insurance company. I do not know anybody today who is comfortable with the process as it is at this point in time, where things fluctuate and change almost on a daily basis. The Solvency regime under which a company of our scale is going to have to operate is too uncertain.

Moving onto options, I can stress good planning. On numbers, at this stage we do not think it is helpful given this level of uncertainty to start to share the numbers.

Andrew Crean: I was not looking for numbers, just whether you had sufficient capital to cover QIS5.

Tidjane Thiam: The industry agreed not to comment on QIS5 so I am not going to break ranks. That is the position that the industry took.

Nic Nicandrou: In our QIS5 submission we included it on an equivalent basis.

Tidjane Thiam: Yes, so all it tells you is that on an equivalent basis we are fine.

Nic Nicandrou: On an economic capital basis Jackson is positive, it was at the start of 2011 and it finished, but that is our own economic capital which we use to inform the pricing and the behaviours that we deploy year on year. However, on Solvency II I think it is pretty immature; there is just too much fluidity, as Tidjane has said.

Tidjane Thiam: Asia, Asia, Asia, I think you read our release well. I think we are very clear on the strategy we are trying to follow. We talked about the need to make sure that each of our businesses is viable across an economic cycle and that is what we are doing. Asia is effectively doing very well. The macroeconomic numbers I gave today, for me, are staggering.

Asia is a continent, it is 70% of the world population; it is not a negligible part of the world. I believe that any company that does have a real future on a global scale will be saying Asia, Asia, Asia in the future. It is 70% of the world whether we like it or not and growing. I do not think we are saying anything that the market or the economy does not know really. That is a reality that we are holding; it is just a fact of life.

I do not think it is a particular shareholder base; it is just representing what the company is and no company so far has the power to choose its shareholders. Therefore all we can do is produce results and the people decide to buy our shares or not. We have a very clear strategy.

Blair Stewart (Bank of America, Merrill Lynch): I have three quick mop-up questions. Nic, since you brought it up, slide 72, can you just explain again the adjustment to full fees?

Nic Nicandrou: When you do the FAS 157 calculations and you calculate the value, if you like, of the guarantees or the reserve for those guarantees, you are allowed under US GAAP to bring in the fees that you will charge for those guarantees. However, you are only allowed to bring in the proportion, a sufficient proportion that does not generate a negative reserve. That is what happens in the calculation of liabilities.

What if you were to therefore extend the calculation to the rest of the portfolio? Effectively you need to do the same and this is the offset that is coming through in the column that you see on page 72.

Blair Stewart: My second question is: given the state of the closing balance sheet in the US, what should be our expectations for the dividends paid back to plc? My third question is: in one of the slides on Asia, it was noticeable that you are sub-scale given the context of the Group in Thailand. I just wondered what your strategy there was.

Nic Nicandrou: We have given you our long-term objective, which was by 2013 to have a dividend of 200 million on a sustainable basis. We do not have anything to add to that particular objective.

Tidjane Thiam: There is no doubt that we are sub-scale in Thailand. Unfortunately we managed to double this year, but we went from 1% to 2%; a huge increase but it leaves us still sub-scale and we have a huge appetite for growth in Thailand. Barry is there regularly and we are trying a number of things.

Barry Stowe: Yes. One of the reasons we are sub-scale in Thailand is because historically over the last 30 years it has been an agency-driven market and it is the one place in Asia where we have not built a particularly large or strong agency for. We are working on that.

We have the best, most competent, most experienced, most professional head of agency we have ever had in that market who has come on board in the last year. Therefore we are seeing a material uplift in the number of agents and in the productivity of those agents, it is still very small. You do not build an agency overnight, you build it over years. We are keenly aware of that gap.

You can address the issue a little more quickly on the Banca side if you get the right deals and you execute against those deals effectively, then you can have an impact. As Tidjane said, we have doubled our share, not the greatest trick in the world but we have doubled our share there. That is largely attributable to Banca generally, to UOB and SCB specifically, particularly on the execution of the UOB deal.

UOB is a pretty big bank in Thailand, over 150 branches. We are now basically almost two years into the operation of that. We were able to execute very quickly, drive very high volumes of new business including some months of triple digit growth over the last year. That has not only improved the economics of the scale of our business, but it has got the attention of some other bank partners in Thailand. Therefore it is now pretty easy for us to get invited into conversations with other bank partners.

I am optimistic that over the next year or two we will be able to continue to build out the scale of the distribution platform and that is really what it takes. We know what to do; we have just got to build a distribution platform that is in sync with the scale of our ambition there.

Greig Paterson, KBW: I wonder if you would just remind us of the percentage contribution to Asian value of new business from Standard Chartered in Hong Kong specifically. When that comes up for renegotiation in 2015, just the mechanics, will you pay a single large lump sum for access for the next ten years or will you take that sum and spread it over three or four, five years just in terms of how I should think about forecasting?

The second point is that I noticed the Asian productivity dropped from 8% year on year growth in the first half and then on my numbers the growth rate was 2% year on year in the second half. Tidjane, at the November conference you said it would be a challenge to hold onto that. I wonder if you could give us an objective for 2012 that you might have in terms of your growth in Asian productivity just so I can get this for forecast purposes.

Barry Stowe: Can I tell you the percentage of NBP that Standard Chartered Bank in Hong Kong is as a percentage of PCA? I think the answer to that question is, no, but it is good.

Tidjane Thiam: I think you can, but you will not.

Barry Stowe: Yes, I can. Yes, fair point. SCB it is a strong contributor, but there are many strong contributors across the region and that is just slightly too granular a question. I do not like to get too specific about the terms of these agreements, but I will tell you your calendar is wrong on when that deal will be renegotiated.

In terms of agent productivity, when you get the kind of strong productivity improvements we have had over the last couple of years there is not infinite scale to improve productivity.

Therefore we do continue to chip away and get better and better and more and more efficient and productive, but that is not an infinite gain, you do get agents to a point based upon the demographics of the market, based upon the macroeconomics of the market, there is a point that for the products we sell you are not going to drive premiums higher. There are still 24 hours in the day of most agents; there is only so much they can do.

Tidjane Thiam: You touched on the limits of numbers. For instance, if you are driving growth in a relatively lower productivity area and NBP, which we are very happy with, it may drive your productivity down, your average. It is maths. It is like margins, it tells you where your growth has been happening. If you really want a meaningful productivity conversation it would have to be on a country by country basis. Once you mix Indonesia with Vietnam with the Philippines they are so much moving in different directions it is not always meaningful.

Greig Paterson: I am just trying to understand the mechanics. UOB, you paid a lump sum up front, I was just wondering if you were going to pay a lump sum or if it would be spread over the period. Tidjane, you did slip up about two results ago and gave us the date and it was 2015 on the Standard Chartered, so are you saying that that somehow has moved? It is in the Q&A of two years ago, I was just wondering has the date moved?

Tidjane Thiam: We will check the Q&A. I am trying to go back through my memory. However, I bet I probably said something like at least. The reality is we do not communicate on the timing. It is not because we love secrecy. Last year, for instance, we spent a lot of meetings telling people that there was no problem with our agreement. At one point we learned that we were going to lose it, some one was telling everybody we were going to lose it, there was a lot of disinformation around that deal. We really find that there is no upside in adding to that.

We are very happy with it. Frankly, we have a great relationship with Standard Chartered. We added the Philippines last year, which we are very happy with. We have a facility in Thailand. Creating a quick event and by communicating around the date is not helpful. Our fundamental stance at this point and our agreement with Standard Chartered is not to start speculating on the date or shape that an agreement will take, etc. However, on a meaningful planning horizon for you I do not think it is something you need to worry about.

William Elderkin (Soc Gen): I have three questions on the US, please. First of all can you comment on the profitability of your pre-2008 variable annuity cohorts in the current interest rate environment?

Secondly, on slide 47 where you give the lapse and utilisation sensitivities or an indication of them, is there any way we can relate that information to your net amount at risk disclosures?

Thirdly, I think you are reporting IRRs on your business in the US somewhere north of 20%, my impression is most of your peers in the VA space are perhaps around 15%, do correct me if I am wrong. Can you just explain briefly where that excess return is coming from?

Mike Wells: Let me give you a general statement that I think will answer your first question. We do not have a vintage or block of business that is not profitable. Therefore the related question to that that you may have read, competitors, some of them are worried about additional premium going into old contracts, if that is where we are going. They can go to any of the previously written supplements. We have less than a 3% supplemental pay rate but, candidly, it is not a concern for us if they go into a previous vintage.

Tidjane Thiam: Just to add to that, I know very well that we were charging 95 basis points for today, others were charging 65. We were more than 50% more expensive than the competitor and let me explain to you why; our profitability is different, we are much more expensive.

Mike Wells: Chad will come back to you on the second piece. On the IRR there are a couple of things there. I think the primary driver is we still have 25 plus basis points of an expense advantage on the entire industry, and some of the market leaders, that is materially higher than that. Therefore if you think about how critical ten basis points are in this business to margin it is a pretty nice place to start. That has everything from choosing Lansing versus New York City as a home and all of the related tangible costs in that as well as the efficiency and the technology and things. It is not one single piece, but it is the entire model's output.

William Elderkin: The information you have given in that slide on lapsation and utilisation sensitivities, is that in any way comparable with the implicit information inside the net amount at risk disclosure?

Chad: Could you tie the sensitivities down there? Not really.

Nic Nicandrou: It is two different calculations. They are two different bases we are riding on.

Tidjane Thiam: Thank you very much for your patience. Again, we are very positive about the prospects of our business in 2012 and we will see you in a few months for our next presentation. Thank you.

[END OF TRANSCRIPT]