Prudential plc – Group Update
Transcript from analyst and investor presentation.

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SLIDE 2 - TITLE

My message today about Prudential is an upbeat one.

We have the market positioning the financial resources and the depth of expertise to build an exciting future a future that combines scale, breadth of both distribution and product offering as well as a very clear focus on optimising shareholder returns.

We're a top performer in life insurance and we intend to remain so. We've got the potential to become a leading player in the pre and post retirement market in all three of our regional markets. We have an excellent position from which to grow in asset management ad, last but not least we're well placed to build a broader presence in retail financial services and increase both our revenue opportunity and the quality of our customer relationships.

Of course we don't want to be all things to all people. What we want do want to do is to build on the strong foundations we've got and take advantage of our current strengths and competitive position.

Today I want to talk about this vision in more detail and I want to emphasise the extent to which it is strongly grounded on extending business activities that we are already expert in. To do that I have three primary objectives for our time together this morning.

SLIDE 3 - AGENDA

First, I want to tell you about our Results for the 3rd Quarter. You'll see that these Results are a clear demonstration of the positive momentum that the Group has built up.

Second I want to discuss some of the outputs from our continuing work on the Group's strategy and update you on our regional business strategies.

And Third, I'll give you a brief update on our capital position. Philip will spend more time on this and he'll also talk about our business in Taiwan and how we assess its sensitivity to interest rate changes.

So we'll start with a quick look at the third quarter figures. And, as we expected they're good news.

SLIDE 4 – Q3 SALES

These figures bear out my comments at the Interims. They confirm that our businesses are in robust health and the prospects are positive.

Jackson National Life has had a very good nine months. Total APE sales were up 17% and within that retail sales for the nine months were £308 million. That's up 14 percent on 2004. Improved variable and fixed index annuity sales were partially offset by decreased fixed annuity sales.

Jackson's variable annuity assets grew 11 percent during the first half of the year compared with total industry growth of just 1 percent. We've got one of the most rapidly growing variable annuity franchises in the US.

In Asia we've followed a strong second quarter with a very good third quarter a quarter that's up 32% on the same period last year. Sales of more profitable regular premium products now represent 89 per cent of total sales. We saw particularly good performances from Korea, India, China and Taiwan.

In the UK growth has been driven mainly by strong sales of unit-linked bonds and bulk annuities.

Competition has intensified in some areas in the third quarter particularly in protection and in elements of the individual annuity market. Despite this we remain confident that we will achieve our forecast of 10 per cent APE growth in 2005.

Egg reported separately today and their results represent a solid performance at a time when the unsecured lending market remains highly competitive.

And when, at this point in the cycle that market is also seeing much lower levels of growth and higher levels of bad debts.

M&G supported by excellent investment performance had record gross fund inflows for the nine months of £5.6 billion. That's an increase of 62 per cent on the same period last year. Net fund inflows more than tripled to £2.7 billion year to date.

So that's a quick glance at where we are. A strong picture I think you'll agree and one that gives me confidence that we're in for a good year.

SLIDE 5 – GROUP STRATEGY

The Group has undertaken a comprehensive review of retail financial services markets in all major geographies not just Prudential's home territories.

SLIDE 6 – DEVELOPING A LONGER TERM VIEW

We've considered which of those markets are attractive to us which products within those markets give us the best opportunities for attractive financial returns and which distribution channels provide the best access to customers. We've also reviewed the competitive landscape in each of those geographies. And we've done all of that with an eye to the long term.

I led the review personally and I've had regular and substantive input from all Board members. The project team has been an internal one with a hard core of 10 senior and highly talented managers from all parts of the Group.

Above all, we have one clear standard that we use to guide all of our strategy decisions. The choices we make and the actions we take must consistently generate sustainable value for our shareholders. And our actions must achieve the optimum balance between present and future growth and profitability. Taking a broader view has in many areas confirmed the existing strategies Prudential has been following as sound.

However we see a need, looking to the future - to target a broader spectrum of opportunity than just life insurance – important and profitable though we expect that sector to be for us.

Now, a number of fundamental questions concerning the future direction of the Group have emerged from our work. I'd like to discuss 6 of these today. You can see them on this slide.

SLIDE 7 & 8 - US

As you can see we feel that the US is a very important market for us. In Asia we expect to be cash positive in 2006 and still meet our challenging targets – without constraining growth and in the UK we can continue to drive more value here, Egg has an important role to play.

I'll talk about each of these points taking each region in turn and then about opportunities for synergies across the Group before finally talking about the capital to fund organic growth.

SLIDE 9 - US

Let me say now and up front our position on continued participation in the US market through Jackson is a clear 'yes.'

Jackson is a highly successful and well-positioned player in a market we want to be powerful in. We see the US as a very important part of the Group's plans to achieve a leading position in retirement services.

Fundamentally the economics of the US retirement services market are attractive. Good margins and shorter payback periods alongside the highly favourable demographics and the shifting of responsibility for providing income during retirement away from government and employers and towards the individual.

Mutual funds have been very popular asset accumulation vehicles in the US but annuities are currently the only retirement products that can guarantee an income stream for life.

As "Baby Boomers" retire and shift their focus from asset accumulation to income distribution one of Jackson's main aims will be to capture a proportion of these flows.

Next year, the oldest members of the "Baby Boomer" generation will turn 60. As this group of 77 million people begins this move into retirement we should see a tremendous increase in demand for retirement products particularly those products that generate income during retirement. You only have to see the charts on the slide to see why this is a market really worth targeting (Pause).

Before going any further if there is one recurrent theme that I want to nail this morning it is the 'Jackson is subscale' story. This is simply not borne out by the facts.

Jackson is not subscale on any dimension relevant to commercial success in the US market. Indeed it is one of the few companies very well positioned as a provider of retirement funding and retirement income products and it's here that I see their greatest opportunity for growth. Jackson has all the attributes to succeed.

They have earned a reputation as a company that is particularly good at identifying and addressing the needs of both advisers and their clients.

They'll continue to build on that advantage and they'll expand the depth and breadth of their annuities distribution. This will be a key part of their strategy.

Our success in growing Variable Annuity sales, while the overall market is flat to declining demonstrates the innovative nature of Jackson's product portfolio and the success of adapting products to customers' changing needs.

Jackson's annuity platform has brought new products to market nearly twice as fast as its competitors. Going forward that innovation and speed of execution will be key for Jackson to build on its strong position.

Jackson is a low cost operator with all the scale it needs and it is important that they retain the advantages of that position. By maintaining a low cost base they can offer competitive pricing and value to customers.

In 2004 Jackson had the lowest general expense to assets ratio among its peers and it continues to show improvement. With its scaleable infrastructure and with the growth rates anticipated in the business I expect that to continue.

Our success in the variable annuity market shows that in a highly fragmented market mega-size is not a prerequisite for success and Jackson has all the scale advantages it needs to outperform. I don't think this will change because Jackson will continue to focus on those product areas and distribution channels where it can extract value.

Our aim is to continue to grow faster than the overall market using a combination of organic growth and a systematic programme of small bolt-on acquisitions.

With an emphasis on sales of low capital intensity variable annuity products, solid operating results and strong investment portfolio performance Jackson is quite capable of self-generating the capital necessary to support its future growth at our required returns and return a growing remittance to the Centre.

We look forward to seeing those of you who are going to Chicago and Lansing next week where the management team will discuss this US retirement opportunity and Jackson's business more fully.

SLIDE 10 - ASIA

PCA has been the main engine for growth in the Group in recent years and I want to state very clearly that we have no intention of restricting growth in Asia to a level lower than that we consider commercially optimum and sustainable; and there is nothing in our capital position, as Philip will demonstrate shortly that would invalidate this view.

I said at the Interims that the potential and basic drivers of growth in Asia remain compelling and this has been reinforced by this latest analysis.

You can see on the slide, for instance that savings inflows in Asia excluding Japan are already outstripping savings in the US. Our analysis also indicates that the economic profit in life insurance and asset management in the region will more than double over the next decade. We are very well positioned to take advantage of this growth.

Our work has confirmed that the size and growth prospects of the 12 markets we are in will be the key markets for the Group in the foreseeable future.

In fund management we have just received our national licence for China. We are now present in the 8 leading markets in the region markets where we see conditions right for development of domestic mutual fund operations.

The strategy will continue to be to grow primarily by organic means in all markets but with particular focus on North Asia and India.
We'll do so, both as a life insurance provider and as a mutual fund operator. By North Asia in this context I mean China, Taiwan and Korea.

There is enormous opportunity. Just as we've done with our very successful investment in India we'll look to build market-leading positions in these large markets. And to do that we need to be seen as the "agency employer of choice." We need to continue to access broader distribution opportunities. And we've got to lead in product innovation and management of the product mix and avoid capital-intensive products. We have, after all, been a leader throughout the region in the introduction of investment linked products.

We have a very flexible approach to distribution in the region and we'll need to maintain this as individual markets develop.

Life markets are dominated by face-to-face distribution. Productivity through systems and agency development are critical in this channel and we intend to build further competitive advantage on the back of this historic strength. In Malaysia, for example we've successfully established a market leading position by professionalising agency distribution.

Bank distribution partnerships are also very important and PCA has been a pioneer in this area and our deal with Standard Chartered set the standard in the region bank relationships now contribute more than 15% of our revenues in the region.

Alternative distribution represents a further 11% of our sales. Broker and multi-tied agency distribution are growing in some of the more mature countries and direct and tele-marketing also give us significant growth potential.

Greater product customisation is a trend in Asia particularly in the pensions and retirement income segments. Again just as it is in other regions the targeting of pre- and post- retirement financial services is becoming a key theme for Prudential in Asia.

The progress we've made on the mutual fund side has been impressive and our asset management capability will play an increasing role as these markets continue to develop. The excellence that we've demonstrated in investment performance will be a key source of advantage. Indeed, as an aside, our global capability and scale in mutual fund asset management – in the UK and US – is becoming a major competitive advantage and one that we perhaps have undersold in the past. That will change. Ownership of first class investment management capability is a key strategic asset for the Prudential going forward.

We feel that margins in Asia will remain relatively high although they do vary significantly by country. We intend to do all we can to sustain our margins on a country by country basis and our focus, as it always has been will be to grow total NBAP aggressively in line with required returns.

With the increasing scale of the Asian business and to support its next phase of growth we've made some changes to the structure of the management team. We've built on the tremendous strength and experience of the PCA management team we've strengthened our actuarial, risk and IT functions and we've integrated our product development focus. These moves put our team in a wonderful position in Asia to take advantage of the opportunities we see there.

We've got one of the strongest positions of any life and asset management company across Asia. We are determined to build on our core strengths.
We'll continue to expand our participation in a region that will show major growth and opportunity.

<u>SLIDE 11 - ASIA</u>

Here I see the potential in the foreseeable future to develop a broader retail financial services offering in terms both of product range and distribution.

With over 14 million customers Prudential has one of the largest UK customer franchises in the financial services sector and we've also got the assets and capabilities necessary to expand our current market presence. This is not just a matter of financial resources although Prudential's financial strength is a corporate advantage that we must nurture but it also relates to the infrastructure of the existing operations and the quality of the people and resources we deploy.

The Group has three very strong franchises to build on:

M&G continues both to deliver top tier investment performance and accelerate profitability. In M&G we have an excellent investment brand a brand that is rapidly growing retail funds under management as well as attracting a large customer base.

The UK insurance business continues to deliver against its growth and value targets. Here we have a strong life and pensions brand and the potential to market to a very large customer base.

The underlying growth factors outlined in the Rights Issue remain in place today and we are very clearly focussed on ensuring that the capital deployed in the UK business continues to be both profitable and efficient.

I need to set the scene here by giving you a brief reminder of the factors underpinning growth in the retirement sector in the UK:

- Retirement savings represents a material and increasing share of the UK Retail Financial Services asset pool where we've seen gradual but steady improvements in margin as pricing behaviour has become more rational.

- The Government's pending changes associated with A-day will continue to encourage greater saving and provide additional incentives.

- Also at least for the medium term profits are likely to continue to be highly concentrated toward the pre and post retirement market where Prudential has a very strong position.

- And finally high net worth individuals continue to show a very strong bias toward advice based channels where we have been very strong in the past and are set for the future not least because of our success in getting on the multi-tie panels.

If I've got one caveat about the UK market it's about the challenge of converting revenue into profits and doing so at levels that generate the sort of return on investment that can be achieved in Asia and the US.

As you know Nick Prettejohn takes up his new role in January. A major task for him will be to manage every aspect of the business mix to make sure that our present high levels of return from annuities are sustained and replicated on a broader scale from all our lines of business.

Not only will we actively pursue growth but we'll also maintain a very close eye on the value generated at both the product and distributor level. We'll take into account the different economics of products, both within the insurance segment and retail financial services more generally as we make sure that our growth makes the best use of the capital we deploy.

Moving on to Egg. Egg has demonstrated the power to build both a large-scale 'sticky' customer base of over 3m and a very powerful consumer brand.

We've decided that we will retain and develop Egg. When we reflected on the potential advantages that we can get from owning Egg it was clear to us that retaining it is the right decision. It fits in with our objective of generating more value for our customers and shareholders.

There are <u>four key reasons</u> behind that decision:

1. The first is that Egg has built a strong customer franchise with over 3 million younger more affluent customers a very good and very different complement to Prudential's customer base.
2. Second Egg has a powerful proven consumer brand.
3. Third It has a direct distribution model that has supported upwards of 20% compound growth since 2000. In a world of increasing intermediation I believe that maintaining a direct distribution capability remains very important.
4. And fourth Egg provides the expertise and, infrastructure as our entry point to the highly profitable personal 'savings and loans' market. The short-term payback and the lower capital-intensive lending and deposit products are also an important complement to our longer-term capital-intensive retirement offering in the UK.

Now each of the UK businesses I have described will continue to target growth in their own sectors but I do see opportunities for much greater collaboration so that we can capitalise on the strong positions we've got in different areas of the market.

We can also see that cost benefits can be accessed through managing administration and IT infrastructure more closely and by seeking to coordinate our marketing efforts where this makes sense.

New revenue opportunities from greater collaboration are an upside as we work through how best to add value to our multi million marketable Prudential customers. We can offer them a wider range of retail financial services products banking and loan products manufactured by Egg and extremely attractive investment products from M&G.

This depends mostly on creating the opportunity for Egg to work more closely with our other UK businesses and vice-versa.

To this end, we are in the process of a detailed review of how best to realise these synergies. We will be considering whether there is a financial and commercial case for bringing Egg fully into the Group through a share exchange or whether to retain the existing structure. No decision has been made as yet.

A key priority for Nick, Michael and Paul will be to take our UK operations to the next level.

SLIDE 12 ASSET MANAGEMENT

I'll talk now a little more about asset management. Prudential has 3 excellent asset management businesses across the globe but has perhaps been guilty in the past of hiding their considerable light under a bushel.

M&G's investment performance is extremely strong and retail sales are at record levels. In the UK and Asia retail funds under management have grown by 60% over the last three years to £21bn today.

Global asset management profits have also grown strongly an increase of some 120% over the past three years. Moreover these are cash positive businesses that require very little capital to grow.

Looking around the world we anticipate an increasing appetite for transparent investment products access to more global products and the continuing rise of open architecture platforms and a rapidly expanding role for cross border sales off a common investment platform.

As a result of our performance, our brand and our distinctive investment culture we are exceptionally well placed to capitalise on these factors.

SLIDE 13 SYNERGIES

One of the messages that comes across clearly from our review is that autonomy to act in individual markets is critical to best tailor our services and products to meet local market needs and that autonomy is, and will continue to be, an enduring feature and strength of how Prudential is organised.

But I believe there are material synergies for us to act on that we have got to capture without undermining the local autonomy. So far, we've identified three main areas where we believe there are material costs savings and revenue benefits from working across the business units. These are capital management, risk management and in the Group's IT infrastructure.

We are working on initiatives right now to deliver these opportunities and I am encouraged by the value I've seen already emerging in working more closely as a Group. One immediate example is the work underway to put in place a single global IT infrastructure and support unit. That alone should give us a saving of some £20-25m a year!

I will update you on an ongoing basis as we continue our work on realising synergies across the Group.

SLIDE 14 – GROUP BENEFITS

I will make a few comments on capital. I've placed capital management at the centre of my agenda for the Group. As a team we've taken a very hard look at where our capital is deployed and we have seen improvements to capital efficiency over the last year.

Over the medium term we've got the capital and cash to fund organic growth within our current and developing balance sheet. There are also further options to increase our capacity in the future .through debt and alternative capital sources.

At the moment we view value creation and the allocation of new capital in terms of IRR's and payback periods.

These are clear disciplines that we build into our decision-making processes. Over time we've been moving, and will continue, to move onto processes based on our economic capital modelling and risk adjusted rates of return.

People: Now people. I've been saying since the day I started how important people are to this business. Brand alone is not enough.

We are continuing to build a powerful team and over the last month we have appointed, Nick Prettejohn to run UKIO, Priscilla Vaccassin as Group HR Director and Andy Crossley as Group Chief Risk Officer. Such appointments and focus will give us a strong position to build for the future. I will continue to develop the strongest team in the industry.

I shall now hand over to Philip who will give more detail on the financial and capital aspects.

SLIDE 15 - PHILIP BROADLEY

I'd like to pick up on what Mark said about the capital position of the Group and go into a bit more detail so that you can see how it underpins the execution of the strategy he's just laid out and our potential for growth.

I'll also give you our view on our interest rate sensitive business in Taiwan and how we view it.

SLIDE 16 - INTEGRATED APPROACH TO CAPITAL MANAGEMENT

On 2 June this year we took you through our integrated approach to capital management and regulatory capital position and discussed our EEV framework for future financial reporting.

We showed you this slide then pulling together all of the work we have done. Our approach has proven to be robust. Our expectations for the year-end regulatory capital position are still in line with those expected a year ago.

I would expect our economic capital position at the end of the year to have benefited from the further diversification of the group's insurance liabilities.

As we look forward over the medium-term that Mark talked about at the plans that our business units have and the priorities that Mark has set for them we are confident that the growth in new business can be funded both from our balance sheet capacity as it develops and from the capital that will be released from today's in-force business.

We hope that internal models as we have developed them will become the basis of Pillar 2 reporting under the Solvency 2 regime at the end of the decade.

We also manage our ratings. Here, we're thinking about both our cost of funds and the importance of our credit ratings to customers.

We understand that the Rating Agencies are exploring how they will make use of internal models, which we find very encouraging.

Finally, when we deploy capital we make decisions based on the relative IRRs available to us and we think about the payback from investments – as a measure of capital intensity. Going forward we will further enhance our capital allocation model based on our group wide economic capital framework. We intend to roll out a consistent risk-adjusted measure across the group.

SLIDE 17 - REGULATORY CAPITAL

We have spoken before about the Group's position under the Financial Conglomerates' Directive. The FCD came into effect at the start of this year and it took the existing capital requirements of the Insurance Groups' Directive and added a continuous and hard solvency test to that framework. Our Group net capital position is broadly equal to the sum of the individual capital resources, less the capital requirements for each entity looked at individually across the Group.

I described the process of calculation on 2 June so I won't repeat it here

We reported a surplus under the Directive at 31 December 2004 of £845m, that is a surplus of 42% of required capital. We mentioned that the position was broadly maintained at the half year. As we've said before since the solvency test is a continuous one we have in place a regulatory capital projection model to monitor performance against that requirement. We remain comfortable that the surplus will be broadly maintained at the end of 2005.

I will comment about the FCD calculation for Taiwan later.

It is worth noting that the FCD rules do leave us with considerable capacity to raise subordinated debt to meet the regulatory capital requirement.

SLIDE 18 - ECONOMIC CAPITAL

Turning now to Pillar 2, economic capital:

Back in June we told you how we can now look at our capital requirements on a 25 year view with a target solvency level consistent with the historic default rates from AA bonds.

We hold capital that is about twice what's required to withstand our assessment of financial and operational risks.

The economic capital model supports the plans for future growth that Mark has outlined. We've taken into account that we expect to further diversify our risk profile both geographically and in terms of the range of risks inherent within our products.

One of the benefits of the group's present structure and operations is the diversification benefit that we get from the spread of risks we've taken on. Our gross capital requirement of £3.7 billion is reduced by over £1 billion, or about 30% because of the benefits of diversification across the group, and by a further £800 million of risk-adjusted in-force value. It's worth noting that JNL gives the group around £500 million of diversification benefit.

So I think you'll agree that there are capital benefits to our current structure.

SLIDE 19 - TAIWAN WHOLE OF LIFE

I'll turn now to Taiwan and I'd like to run through how we look at our back book of guaranteed whole of life policies, representing about £1.1 billion of liabilities as described in our FRS27 disclosures.

The business we acquired when we bought Chinfon Life in 1999 wrote solely traditional whole of life policies as was common in the Taiwan market at the time. They were regular premium with limited pay periods. In Taiwan all products must be approved in detail by the regulator before they can be sold and before 2002 only traditional life products could be sold. Premium rates were set by the regulator at different points in time for the whole industry so as to give guaranteed minimum sums assured on death and guaranteed minimum surrender values. At the time we bought Chinfon, interest rates were much higher than they are today and the nominal guarantee rates were 8%. These have fallen progressively over time and are 2% for new business written today.

The policies were generally sold to younger people and hence were at outset of long durations of 30 to 40 years. The premiums are invested in bonds of which the regulations only allow part to be invested overseas. The Taiwan bond markets are relatively undeveloped and as in much of Asia it is not possible to source assets of these maturities. As a result our book has an average asset duration of only 8 years. As interest rates have fallen over the past 6 years, the combination of the guarantees, asset mismatch and the fact that the business is regular premium have led to the emergence of negative interest rate spread on this back book.

The policies allow for charges to be made for mortality and expenses, so that in practice the policies "break even" at a lower rate than the nominal guarantee rate. They also lapse as individuals react to their own personal circumstances and choose to receive the cash surrender value rather than continue contributing to a whole of life policy providing only death benefit.

The majority of the pre-2002 business was acquired with Chinfon. Our strategy since acquisition has been to develop the business so that cashflow and profits from profitable new unit linked and A&H business would in time fund any negative spread that may arise. As you will see, we have been successful at transforming the nature of the business written.

So, what is our view from a capital perspective? Through our stochastic economic capital model We've worked out how much additional capital we need to cover all risks to a level consistent with the historic default rate of an AA bond including interest rate risk in Taiwan.

On 2 June we indicated that the majority of additional economic capital to be applied to Asia was related to Taiwan. This is held in central funds.

For regulatory capital purposes the FSA has agreed that we should modify the calculation so that the capital requirement in Taiwan under the FCD can be determined on an economic capital basis that properly reflects the nature of our in-force liabilities in Taiwan.

As far as embedded value is concerned – we assumed for our AP reporting at the 2005 half year that Taiwanese Government bond yields, currently at around 2% will trend to a long-term assumption of 5.5% by 31 December 2012. We still believe that Taiwanese interest rates will rise to a level more consistent with a nominal rate that reflects the country's economic growth of about 3.5% and inflation of 1.5%. Indeed In September there was an increase in the central bank rate of 1/8%.

We make allowance for the mix of assets in the fund, our future investment strategy and the market value depreciation of bonds already held by the fund as yields rise to the assumed long-term yields. At the half year this resulted in an assumed Fund Earned Rate that trends from 2.3% to 5.8% by 31 December 2013 with a slight decline in the FER in the first few years.

We believe this is an appropriate approach and is more conservative than a straight line grading,

Looking ahead, for EEV where we will expect to publish our full restatement of 2004 on 13 December we have fully reflected the cost of this increased capital within the Asian embedded value. This was the £269m reduction in our shareholders' funds that was caused by the increased cost of capital within Asia disclosed in our June 2 EEV summary results announcement.

So, we've established the EEV embedded value using a trended basis to longer-term rates. It's consistent with the view of many economists and we also prudently hold capital on a stochastic basis for the possible scenarios where lower interest rates would prevail.

From a cashflow point of view we've built the negative spread into our plans for Asia as a whole. The current cost of funding negative spread on the in-force around £30 million a year. Bearing in mind our growth plans Taiwan would be cash positive during 2010 even in the unlikely scenario that interest rates were to stay unchanged at the current, historically low levels throughout.

On current assumptions of mortality and expenses and investment return of 4.6% would allow the Taiwan business to break even on its total in-force business today.

That breakeven rate will decrease as we put more profitable new business on the books over the coming years.

With our current mix of business weighted heavily towards unit-linked and protection - interest rates have little effect on new business profitability. Indeed a 1% reduction in assumed interest rates would reduce our new business margin in Taiwan by only 2%age points.

SLIDE 19 - TAIWAN SENSITIVITIES

The nature of the business written in Asia varies considerably between countries. In all markets there has been a move towards more profitable new business on a risk-adjusted basis, particularly unit-linked.

As a result the sensitivity of the AP shareholders' funds to interest rate changes varies widely across the region. Singapore and Malaysia are very insensitive to interest rate changes while Taiwan, as you know is rather more sensitive.

This slide gives you sensitivities of interest rate changes to the end 2004 AP position for Taiwan. It shows the effect on our EV in Taiwan from a 1% shift in the start rate, and separately a parallel shift in the interest rate accompanied by the same movement in the RDR. The relationships are not symmetrical. A +1% movement in the start rate increases EV by £70m; a –ve 1% increment decreases by £84m. A 1% positive parallel shift in interest rates would increase EV by £148m and a 1% -ve movement decreases by £204m.

There is a slide in the appendix showing the premium flows we expect over time from the current in-force book in Taiwan. This information, together with the sensitivities I have just show will I hope give you more information about the Taiwanese position to work with yourselves.

Some of you have expressed an interest in understanding the impact on embedded value of the extreme scenario that interest rates remain at current levels in perpetuity. Although we consider this scenario to be extremely unlikely we have calculated that embedded value would fall by approximately £700 million if we assume that the Fund Earned Rate remains at current levels. This calculation uses the same risk discount margin as we currently use and makes no other changes in assumptions.

I have to say however that in my opinion this approach and therefore this number does not really add to an understanding of our business in Taiwan. It cannot be validly assessed by reference to wholly theoretical and unlikely assumptions about future economic and other related operating conditions remaining unchanged for a generation.

SLIDE 20 - TAIWAN PRODUCT BREAKDOWN

Since we bought the Taiwan business we've taken active steps to reduce the sensitivity of our business to interest rate changes by switching the business to a more profitable model on a risk-adjusted basis.

This slide shows how our product sales have changed in Taiwan over the years since we acquired our business there. In the nine months to the end of September 2005

78% of our business was unit linked or protection product and only 22% represented traditional life products.

As Mark said Taiwan remains a core part of our strategy for building the business in Asia. You can see from today's results it is the largest of our businesses in Asia in terms of new sales. The products that we sell today are predominantly unit-linked, and protection. These products are relatively insensitive to interest rate changes so their profitability is not materially affected by the current interest rate environment. To emphasise a couple of points I made earlier:

A fall in interest rates from current assumed levels of 1% would have less than a 2% effect on the new business margin in Taiwan

Finally to consider the cost of servicing negative spread the business in Taiwan would be cash positive during 2010 after allowing for the negative spread if current interest rates remained unchanged due to the capital released from newer business.

SLIDE 21 - ROBUST CAPITAL POSITION

I want to return now to capital and also talk about cashflow in the context of our strategic review. The robust capital position of the Group that I've outlined has faced a rigorous and prudent approach to capital modelling. We look out over a 10 year planning horizon but more immediately I am confident that over the medium term our organic growth plans are not constrained.

In reaching this conclusion we've assumed no future expense improvements no capital efficiency benefits that have not yet been implemented Nor have we assumed that we will raise any new debt or make any use of alternative capital. We have opportunities potentially to benefit from all of these ideas so we retain considerable flexibility. We have no imminent plans to seek alternative sources of financing, but additional sources of capital are available to us and we consider them carefully.

The growth we're anticipating in our statutory earnings. is expected to lead to an increased debt capacity over the medium term. That development in statutory earnings should come through as we build our shareholder backed business in the UK, and statutory profits emerge. With Jackson National Life earning an increasing share of its income from fees; and our businesses in Asia continuing to grow their profitable in-force book they will contribute as well.

As part of our rigorous approach to capital we've also looked at securitisation, greater use of reinsurance and so on and we'll continue to do so. We've seen in the market an increasing number of transactions that have either monetised emerging surpluses or that are covering new business strain.

We do anticipate that opportunities like these will develop further over the longer term. You will see our shareholder backed business continuing to grow and the market getting more familiar with the structures that we could use to support such capital raising. But we will always evaluate the cost of any form of capital raising to make sure that we manage the balance sheet most efficiently.

The benchmark we will use to judge alternative capital will remain the cost of debt. You'll recall that we were able to raise hybrid debt in July in the US market at a coupon of 6.5%. So we need to continue to judge these opportunities carefully and make sure that we minimise our cost of capital.

We have also not assumed that we will make any use of the life fund estate other than for it to continue to support the business of the fund itself.

SLIDE 22 - CASHFLOW

Here you can see the sources and uses of cash at the holding capital level. You get a clear indication of how we expect it to develop going forward. One year on from the rights issue cash and capital remain very much as we expected then.

In the medium term we will fund growth particularly the shareholder backed business in the UK from the remaining proceeds of the rights issue which we expect at the end of the year will be £770m.

The UK life fund transfer paid over to us this year was £194m. If you look at the investment returns earned by the fund, and the pattern of maturities I would expect this gradually to increase from the level it now is.

M&G's profit growth will continue to support growing levels of dividend from M&G as growth can be supported with minimal additional capital.

As we've said before we expect Jackson to contribute an increased remittance of $150m in 2005. This remittance reflects its strong growth and increasingly capital efficient mix of business favouring as it does the variable annuity product. Going forward we expect that JNL's retained capital and dividends will continue to grow as more capital is released from Jackson's in-force book.

Importantly the growing level of in-force business in each of our Asian markets increasingly provides the capital to fund organic growth at individual country levels. As we aggregate the plans for each of our Asian businesses across the region we continue to expect that on current plans the Asian region as a whole will be cash generative in 2006.

We arrive at this view by looking at each of the countries individually. We look at the profitability and size of the in-force book and the ability to fund growth internally. Currently, Singapore, Hong Kong, Malaysia, Indonesia, Vietnam and the Philippines and the funds business. all have cash and capital surpluses after funding their organic growth.

We continue to look for opportunities at a country level to further the rates of growth where these are available. Acquisition opportunities at attractive rates of return are limited but, while we shall continue to look for them we do not anticipate them in our plans.

Egg will support the development of its balance sheet from its own resources and has completed its capital restructuring enabling it to pay a dividend in due course, in line with the comments it has made.

Moving to the bottom half of the slide we expect net cash use for our UK shareholder backed business of circa £250m in 2005. It should trend toward £150m in 2007.

Capital raised by the rights issue has allowed us to grow our annuity business backed with shareholder capital. The IRR and payback of the capital supporting this business remains in line with the comments we have made before, particularly in our UK presentation back in April.

The UK team, supported by the Group, continues to look carefully at the way it uses capital. The goal is to make sure that it is deployed on the most efficient basis possible. Clearly as the in-force book continues to develop over the long-term the UK business will move into the top half of the slide.

The Group's resources are able to support the capital requirements of the UK shareholder backed business in the medium term, as that is developed as well as meeting our interest obligations and providing shareholders with a dividend.

Today we aren't signalling any change in our current dividend policy.

SLIDE 24 – SUMMARY

To finish I would like to make some concluding remarks before we take your questions.

So my message at the start about Prudential is as I said an upbeat one. We've got the market positioning the financial resources and depth of expertise to build an exciting future combining scale, diversity and focus on shareholder returns.
So, to summarise:

1. The US business: JNL is an important part of our future. Without our US business I believe we would be cutting off one of our primary engines for good profitable growth and thus value-creation.

2. Asia: The challenging growth targets already built into our plans are achievable and are being achieved. And we'll do so within our stated aim of turning cash positive from 2006.

3. The UK: I am confident that the strategies we are already pursuing will deliver good short term growth for our UK insurance and fund management operations. But we must do more in terms of capturing leadership in providing the new generation of pre and post retirement financial services in generating more sales from our overall UK marketable customer base and by extending our product range to embrace Egg-sourced savings and loan products additional to our existing life insurance focus.

   Closer collaboration between all three of our UK businesses will be a key to early delivery of incremental benefits.

4. Retaining Egg fits within this strategy for the UK. It has a complementary role to play in building value for shareholders across the personal financial services product and distribution range. Retaining and developing Egg is the right decision. As I've said our objective is to generate more value for our customers and shareholders and Egg has an important role to play here.

5. In Extracting Benefits from the Group: There are much greater benefits to be had as a Group than we've got at the moment. We will maintain autonomy as a cornerstone of our strategy but there are material opportunities for sharing processes and IT and we've got to make the best of these.

6. On Capital: We've added to our capital flexibility and capacity since the Rights Issue and I don't see capital as a constraint on our ability to build our businesses organically. That's in line with the main thrust of our strategic thinking rather than by large scale M&A.

SLIDE 25 - SUMMARY

Prudential is a successful business and we will continue to build shareholder value. We're going to sustain the geographical spread that has stood Prudential in such good stead over the last decade.

We'll continue to build market leading franchises in the US and Asia and build on our strong positions in the UK. We'll do that by organic growth and by building on our proven strengths and in particular we'll take advantage of the global 'retirement financing' opportunity and our strong life insurance and fund management businesses.

Alongside our ambition to become a leading player in retirement services we'll leverage our capabilities and assets in all related financial service markets where we are confident we have a basis for advantage.

We will systematically expand our customer proposition so that we can capture a greater share of wallet building on the critical mass provided by Egg and its powers to generate new customers. But we'll also be looking for significant revenue benefits and incremental business through closer collaboration in the UK.

We'll achieve that by working together but, at the same time retaining the separate brands and sector focus. There is much work to be done.

We will combine our focus on the near term with a longer term view, so that the actions we take today reinforce our aim of building a strong platform of related retail financial services businesses so that we can drive synergies across.

In doing so, we will be in the best position to deliver for both our customers and our shareholders. It is my full and personal commitment to secure superior growth in value for Prudential's shareholders.

I am excited about the future for the Group.