S1 2012 Earnings Call

Company Participants

- Barry Stowe, Chief Executive, Asia
- Michael McLintock, Chief Executive M&G
- Mike Wells, President & CEO, Jackson National Life Insurance
- Nic Nicandrou, CFO
- Rob Devey, Chief Executive UK & Europe
- Tidjane Thiam, Group Chief Executive

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Blair Stewart, Analyst
- Colin Simpson, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Unidentified Participant, Analyst

Presentation

Tidjane Thiam {BIO 7518525 <GO>}

Well. Good morning, everyone. Welcome to our 2012 results presentation. I've done a few of these now. But we've never had this much trouble getting you into the room. So I'm not sure how to read that, if it's a sign of a lack of interest or anything else. But anyway. We'll try to keep you interested.

We will follow the usual format with two presenters, Nic and me. I will start with the highlights of our results for the full year 2012 and comment on a few key aspects of our strategy. Then I will then hand over to Nic, who will, as usual, cover our financial performance in a degree of detail.

Then I will come back at the end to talk about our medium and long-term prospects and, closer to us, the outlook for the rest of the year. And we will then, of course, take your questions. Members of our executive team from across the world are present in this room, or dialed into this results presentation. I think that's fab. And collectively we will do our best to answer any questions that you may have today.

So starting with the results. Prudential has produced a strong performance in 2012, delivering both profitable growth and cash. At this point of the day, of course you all have had a chance to look at the results. So just pick out some of the highlights. Starting with new business profits, our preferred metric for growth, they have grown by 14% to GBP2.452 billion.

Moving onto IFRS operating profits for the Group, they are, for the first time, above GBP2.5 billion and have grown by 25%. Since 2008, our IFRS operating profits have doubled, underlining, we believe, the quality of our franchises and the execution of the strategy.

Our profitable and fast-growing platform in Asia made a significant contribution to this performance, with Asia NBP, new business profit, up 18% and Asia IFRS profits close to GBP1 billion, at GBP988 million, up 26% on 2011. This growing, profitable. And increasingly cash-generative business gives us a distinctive growth and profit signature.

Cash remittances grew by 9% to GBP1.2 billion. And the notable feature this year is that Asia was, for the first time, the largest contributor with net remittances up 66% to GBP341 million from, I think, GBP206 million for previous year.

Given this performance, the Board has rebased our final dividend upwards by 4p to bring the full-year dividend to 29.19p. This is a 15.88%, 15.9% increase over prior period. And this rebase ensures that our dividend tracks more closely the improving performance of the Group and that shareholders enjoy real, tangible and growing cash returns.

Our performance in 2012 has moved us closer towards our 2013 objectives. So let us take a look at that, starting with Asia. Asia, as you know, is the only region where we have given ourselves explicit growth objectives.

So starting with growth in Asia, new business profits grew by 18% to GBP1.266 billion, whilst IFRS profits grew 26% to GBP988 million, exceeding the level of the 2013 objective which was set, you will remember, at GBP930 million.

Moving to cash, which is the second leg in our growth and cash agenda, PCA remitted GBP341 million of cash to the Group, exceeding here, again, the level of its 2013 objective; Jackson delivered a net remittance to Group of GBP249 million; and the UK contributed GBP313 million in net remittances.

At Group level, we are aiming for at least GBP3.8 billion of net remittances over the four-year period from 2010 to 2013. So to date, three years into that four-year period we have delivered 85% of that cash target. So three-fourths of the way. Across the board, this is an encouraging performance.

Our 2012 numbers are good evidence that the strategy, outlined in this familiar chart now for you since 2009, is working. This strategy is underpinned by a set of operating principles that we implement with discipline.

I would like to take a moment to talk to you in more detail about each of these of principles in turn; the focus on customers and distribution, the use of balanced metrics, capital allocation and our proactive risk management. So let's start with the one that we put at the center of this pictorial, which is the focus on customers and distribution.

Quite simply, customers are the ultimate source of value for a company like ours. Delivering lasting and sustainable value to customers is key to driving shareholder returns.

The emerging middle class in Asia represents today about one-half of our global customer base. And is growing strongly. Baby boomers in the US, the aging middle class in the UK, provide us with two additional large customer bases.

As a life insurer, we simply help our customers to save for retirement. And to protect themselves and their families against a number of risks, such as illness or death. Meeting our customers' needs means that these customers will stick with us and, if satisfied, become our advocates with potential new customers.

This virtual circle drives net flows, which I really believe is the lifeblood of an insurance company. And you'll hear a lot about this today. Over the last four years, we have attracted over GBP36 billion in net flows globally. And the persistency of this business is good. That's the dynamic; that's the driving force behind the results that we have been able to achieve. It's our ability to capture and retain net flows.

Now in that game, distribution of course plays a key role in our ability to reach, to attract. And retain these valuable customers across regions. Our customer franchise and our unique distribution reach drive strong and sustainable financial performance, translating over time into cash and returns for shareholders.

So turning now to our other operating principles; I'll start with balanced metrics. And I've added disclosures to that because it really goes together. We have been enhancing our financial disclosures consistently for a number of years now; we really have three things in mind. The first is to explain to you clearly how we make money. And this led us to introduce our various sources of earnings disclosures in mid-'08, for those of you who remember.

Second then, to show you how we allocate capital. And with what impact. And we introduced a number of disclosures since mid-'09 on our investment in writing new business -- our new business strain. And we have been, since then, exclusively focusing on IRRs and payback periods by region. And Nic will come back to that.

And the third theme has been really to focus on cash. And track our cash generation. At the end of the day, cash is, for me over time, the ultimate measure of performance. And to give you better visibility on our cash generation, we introduced our first free surplus disclosures in March '09, because simply, in business what gets measured gets done.

So all these changes are not just presentational; they have had a significant impact on how the Group is managed. Internally, we use these metrics to reward the right behaviors. And to drive financial performance that is in line with our shareholders' interests.

Externally, we believe that these disclosures give you better insight into our key performance drivers of the business. So you can better assess our performance and hold us to account. So let's now take a closer look at the business using the lens of some of these disclosures. And I'd like to start with the sources of earnings.

Since '08, I have been consistent in emphasizing three key main income streams in our industry; insurance income, fee income and spread income. I've also been explicit about our preference for the first two; insurance income, which generates profits that are both cash and IFRS rich, with little correlation with financial markets.

And fee income, which supported by strong net flows, which I referred to earlier, provides growing and capital-efficient earnings with little exposure to interest rates.

As you can see from the chart, we have been focused on driving forward for some of these two earning streams. That is core to our strategy. Their proportion in our earnings has gone from 39% in 2008 to 57% in 2012 in a total that itself over the period, has grown by 92%. So almost doubled.

So in 2012, these two sources have generated almost three times more absolute earnings than in 2008. They have trebled in four years. In 2012 alone, income from insurance margin grew by 40%, while fee income increased by 24%.

This is what explains, in a large part, why our earnings have not only been resilient. But have grown in spite of a low interest rate environment. And this underpins our belief that we can continue to grow our earnings sustainably, even in a challenging environment.

So moving now to capital allocation. And you're familiar with this chart too, we have been disciplined about both the quantum of capital invested. And its geographic mix over the last four years. We have consistently allocated capital to our highest return businesses with the shortest payback periods, in line with our risk appetite.

And as you can see, this has had a positive and significant impact. So that over the last four years, new business capital investment has declined by 22%, while new business profits have doubled.

Turning now to cash generation. Amongst our three key metrics, cash is our ultimate yardstick of performance. It allows one to cut through all the debate on the merits of various accounting methods. That is why we have encouraged you to increasingly assess our performance against this metric. This is also why we have emphasized free surplus. And highlighted how it translates into cash generation.

This focus has paid off, as demonstrated by the strong growth of business unit remittances over the last five years and, more importantly, by the significant cash contribution from all four -- and I insist from all four -- of our business units, which is a situation the Group has never enjoyed. The diversification of sources of cash increases the Group's resilience. And reduces its dependency on any single BU.

So let me finish this section with a few words on our approach to risk management and capital. The balance sheet is a source of competitive advantage in our industry, because it allows us to make good our promises to customers. So it is, therefore, a source of long-term shareholder value creation.

We have continuously strengthened our capital position since 2008, in spite of the crisis. We have taken proactive management actions to improve our capital position. For example, in '09 we sold our capital-intensive, Taiwan agency business. And the attached back book, which improved significantly our IGD capital position.

In the UK, we have established and maintained a GBP2.1 billion credit default reserves in the annuity business. In the US, we have operated consistently above a 400% RBC ratio since the financial crisis started. And in the UK, the inherited estate stands at GBP7 billion at the end of 2012. And is a noteworthy source of strength.

So a good level, the IGD surplus. Current regulatory measure of capital stood at GBP5.1 billion at the end of 2012.

Now, as we all know, IGD was meant to be replaced as part of Solvency II by a more economic view of capital. We now know that Solvency II will not be implemented before 2016. In the interim, it is desirable to continue to improve the current capital regime. And earlier this month, we have agreed with the FSA a change to the method used to report Jackson's contribution to IGD with the level from which the surplus is calculated from 75% to 250% of RBC.

Let me just say that we believe it is a step in the right direction towards a more economic view of capital, as it better aligns IGD with our view of free surplus. And you will remember that when we introduced free surplus we used 235% of RBC.

So on this new basis, our IGD surplus remains strong at GBP4.4 billion at February 28, representing a cover of 250%. And Nic will discuss this change in more details in his section. So we have covered our operating principles. I'd now like to look at how they have been translated in each of our regions, starting with Asia.

In Asia, as I said, we have 13 million customers across 12 countries. We have added 2.1 million new customers to its base since 2008. For me, more than how many customers we have, this slide is about the scale of the opportunity.

If we take a few country examples; in Indonesia, where we are the market leader, the largest company, we have 1.8 million customers, up 1.1 million since 2008. However, this is still a small proportion of the total Indonesian population of 242 million.

You can see similar dynamics in markets such as Thailand, where we have 300,000 customers out of a population of 70 million; Vietnam, we have 1.2 million out of a population of 88 million; or the Philippines, we have 100,000 customers out of a population of 95 million.

To give you a perspective, in the UK we have 7 million customers out of a population of 63 million. Our customer base provides us with opportunities to cross sell and upsell. This is important for us, as the more policies customers have, the longer they stay with us. And the more profitable they are for us.

We have developed data analytics called the Smart Leads program, to help our teams capture this opportunity by identifying specific behaviors, while triggering events for additional needs; for example, a newborn baby within a customer's family.

Piloting the implementation of this program in Hong Kong and in Indonesia has led to a 20% uplift in cross-sell conversion rates. It was very significant and very profitable.

I have said that we focus on our customers and our distribution. As you know, both are central to our success. We have a unique multichannel platform. And I'd like to say a few words now on agency and banks. So starting with agency.

We have a large and productive sales force in Asia. And it is clearly a core distribution channel for us. As we show here, agency NBP in our sweet spot Southeast Asian markets grew by 19% in 2012, driven both by the growth in the number of active agents, a key indicator of agency criteria. So I think this is the growth in the number of active agents, not in agents, in active agents. And, to a lesser extent, by an increasing NBP per active agent.

We continuously work to strengthen and expand our agency sales force. And increase its level of activation. So let me just highlight some of our key initiatives. In Indonesia, we have continued our push outside Jakarta. West Java, East Indonesia. And Kalimantan experienced the strongest growth, in excess of 40%. 400 recruitment campaigns across 30 cities helped grow our manpower.

Our agents themselves were also involved in this effort, with a referral campaign called Agents Get Agents. At the end of 2012, we had more than 190,000 agents. And in parallel, our training and development programs, including a fast start training for new hires, contributed to improved productivity.

In Hong Kong, moving to another market, we have been driving our new critical illness product through our PRUmyhealth campaign. We are gaining good traction in cross-selling this product to our existing customers. And our productivity efforts, including on reactivating non-active managers and producers, paid off. It was pleasing to see, as a result, the number of our $1 million round table MDRT agents grow by 20% last year alone, in Hong Kong.

In Singapore, we have had a similar focus on increasing the conversion and activation rates of our agents. We have a Yes You Can initiative. We also launched customer segmentation initiatives to target both lower tier and high net worth clients. And I can tell you, the high net worth clients went from 6% to 11% of APE in one year.

Finally, it was pleasing to see Pru being, in 2012, the largest recruiter of life agents in Singapore, with productivity of our new recruits up 34%.

Finally, in Malaysia, we have continued to build out our Bumi capabilities by targeting the areas traditionally operated by non-Bumi agents, which are particularly on the east coast of the country.

At the end of the period, we had more than 5,000 Bumi agents who are 40% of our sales force, giving us a more balanced mix relative to industry. And our Bumi training initiatives are helping drive higher productivity in this very important channel for the long-term future in Malaysia.

So the agency channel is central to our strategy in Asia. And we will continue to actively invest in this channel, to drive further growth and productivity.

So I'd like now to turn to bancassurance, where what we do is additive to. And not in competition with -- and I'll insist on that -- additive to, not in competition with what we do in agency. I will start with a few words on why bancassurance is so important in emerging economies.

It is key to really understand that customers' preferences, in terms of ownership of financial assets, evolve with rising individual wealth in a country. And this is very well known work from Oliver Wyman.

If you look at personal financial assets by per capita wealth, for lower levels of wealth, they are primarily. And this will not surprise you, in the form of cash and bank deposits.

As wealth grows, customers seek to diversify their assets into other products, including life insurance, in red there. And as this unfolds, banks are naturally well positioned, given their share in personal financial assets through deposits.

Therefore, it is simply vital for any player with long-term ambitions in an emerging market, to be in the banking channel. It's as simple as that. You have to be inside the branches, at this inflexion point, when a lot of profitable growth will be available, because those cash deposits are being invested into financial products. Very simple.

Across Asia, we have 77 bank relationships. And access to 15,250 branches. We expect to continue investing in this channel, absolutely, to further expand our distribution reach to access this significant growth opportunity, which we cannot afford to miss.

So let me now give you some granularity on the performance we have achieved working closely with our valued bancassurance partners in Asia.

Growth in our sweet spot markets in Asia from the bancassurance channel was strong, you can see in red here, at 45%. This reflected continued strength in Singapore and Hong Kong, whilst our more recent partnerships in Indonesia, Malaysia, Thailand and the Philippines have been gathering pace.

The development of our preferred model, where our own staff, called insurance specialists, perform the actual sales, has allowed us to both grow faster. And improve our product mix in our sweet spots, shown in red here. We are increasingly focusing on penetrating our partners' high net worth customer base through their wealth or private banking networks.

Across our sweet spot countries, we are working closely with our partners on joint marketing campaigns aimed at generating bank traffic and, thus, referrals to our insurance specialists who are in the branches. And those efforts are paying off.

In the rest of Asia, in blue here, which will be mostly Korea and Taiwan, we continue to stay away from capital intensive guaranteed products, which customers are often seeking to buy for banking channel, both in Taiwan and Korea.

And if I may, I think this chart illustrates something we often say about Asia. You don't really see much by looking at the top numbers; there are often very different underlying stories. So looking at the global bancassurance numbers, you wouldn't see that there is really one segment growing at 45% and the other one at 5%. So two very different dynamics.

The performance of the SCB and UOB, Standard Chartered and UOB partnerships, in the period continued to be strongly positive. Our sales via SCB increased by 42%. And those via UOB by 65%. UOB has simply doubled every year its sales, since the start of our partnership. It was pleasing to see both partners achieving a record year in Singapore.

Our focus on customer and distribution, one of our operating principles in action in Asia, has helped us deliver high quality growth in this key region for the Group.

Our emphasis of regular premium products, which consistently represent more than 90% of our APE, you can see that on the top left here, in Asia, encourages customers to save for the longer term, smoothing out the peaks and troughs in the market, while providing us with a resilient source of earnings and profitable growth.

Our focus on health and protection is a direct consequence of our belief that we will only succeed in the long term by addressing customer needs that are important. And that we can serve profitably. It is also consistent with our stated preference, which I referred to earlier, for insurance income as a source of earnings.

So over the past four years, health and protection sales increased more than twofold, representing a CAGR of 23%. This means that their share in our Asian sales increased by 10 points to 32% over this period.

This focus on quality growth, with regular premium products and health and protection, has, of course, a positive impact on persistency, as highlighted on the right-hand chart. The quality of this growth. And its sustainability, is also enhanced by the growing geographic diversification of our earnings.

We have worked hard to broaden our footprint in Asia beyond our historic presence in Hong Kong, Singapore and Malaysia, in blue here. This is illustrated by the chart showing the evolution of our Asian in-force book, since '07.

Hong Kong, Singapore and Malaysia, which I've called our historic three markets here, have grown by 18% CAGR over this period. And by the way, it's only in Asia that looks like a low number, 18% CAGR since '07. The other markets, including Indonesia, have grown to more than four times their initial size over the same period.

The net impact of this dynamic, growth in our historic three markets being completed by faster growth in other markets, has led to a near trebling of the total in-force book over the last five years.

Naturally, we're continuing to work to diversify our franchise, as illustrated by our recent initiatives in Thailand, the Philippines and Cambodia, where we continue to plant the seeds of our future growth. And I'd like to spend a minute on those.

Starting with Thailand, which is a market with considerable and attractive growth potential, where we historically were underweight. We signed, as you know, an exclusive 15-year partnership with Standard Chartered Bank last year, giving us access to over 820 bank branches. And it is the fifth largest bank network in that country.

This strengthens our existing bancassurance platform in a market where banks account for 54% of new business sales. And where demand for health and protection is significant, given low insurance penetration. So this plays well to our strengths. And provides us with significant headroom for long-term growth.

Next, the Philippines, a market which will give us promising prospects, with a large population, improved macroeconomic management. And a renewed emphasis on attracting foreign direct investment, as well as the upgrading of the country's infrastructure.

Our business there is now making good progress, delivering strong and profitable growth. Unit-linked APE sales in 2012 grew by 59%, reflecting successes across our distribution channels. Our agency sales force is now the largest ever in the history of Prudential in this country. And it's almost double where it stood in 2010. So that's two years ago. And we now have an established set of bancassurance partners contributing further to our performance.

Finally, Cambodia. In January 2013, a few weeks ago, we started life insurance operations in this country, our 13th market in Asia, where we have partnered with ACLEDA Bank, which is the largest retail and commercial bank in the country. This is the first partnership of its kind in Cambodia, where we believe there is significant opportunity for growth as the market develops.

So bringing all these points together, we have executed well in Asia and have delivered strong performance on our three key financial metrics. New business profits have grown by almost 4 times over the last seven years; IFRS operating profits for a period were very flat, have grown by almost 4 times over the last seven years; and cash has grown by 12 times over the last six years because we cannot compute a rate on a negative number; this is the first one. In summary, our strategy in Asia has delivered good returns to our shareholders.

So let's now move to the US. In the US, we have consistently taken a proactive approach to a VA market over the cycle and, as you know, we have added the business VA market to our original fixed annuity business, which is what Jackson was when we bought it, it was a fixed annuity shop. The approach we have taken means that we can moderate our appetite for VAs, depending upon the market and competitive environment.

As you can see on the chart on the left-hand side. And this is just a reminder. But we stay disciplined during the period of a features war from '07 to '08 when other players accelerated their growth very strongly. I will not name the name. But I remember investor meetings in Q1 '08 where we were asked why is so and so growing at 67% and you're flat. So you can find who it was. So we didn't grow in that period.

We then benefited from a good -- why we're a bit sensitive when we are asked if we have discipline, this is a time when it was important to show discipline. We then benefited from a flight to quality as competitors exited the market.

We were opportunistic in writing large volumes of new business in '09, '10 and '11. And that was in line with our risk appetite and it exceeded significantly all our return hurdles.

We have continued to see strong consumer demand for this product, given the supply scarcity. So in 2012, on the right, we took various proactive actions to control volumes of VAs with guarantees to $18.4 billion within our stated target range for the year of $18 billion to $18.5 billion.

At the same time, we successfully grew our no-guarantees VA book with the successful launch of Elite Access, which provides retail customers access to alternative investment in a tax-efficient VA wrapper. As shown on this chart, you can see in gray Elite Access accounted for 16% of our sales in the Fourth Quarter last year, driven by strong customer and distributor appetite for this product.

As you know, we also diversified further Jackson's sources of earnings, in addition to the fee income and spread income from the VAs and the fixed annuities, through the acquisition of REALIC from Swiss Re, which will increase the earnings contribution from insurance income in line with our focus on driving earnings with reduced market sensitivity.

Let's look now at the impact of this approach, with some numbers. We have maintained a healthy in-force books, as shown by the chart on the left-hand side, which we showed you at New York. But updated at December 31, 2012. Only 10% of Jackson's in-force book is In the Money at S&P levels at the end of the year. Given the recent market rally, the percentage of the book that is In the Money would have reduced further.

Importantly, in a period of turmoil in the industry, we have attracted strong net flows, which has always been our focus ahead of gross sales or gross flows, as net flows ultimately drive earnings growth and, thus, cash generation.

So bringing Jackson's performance together; our strategy has led to strong profit generation with industry-leading ROEs and, lately, significant cash remittances while maintaining a consistently strong capital ratio. Jackson has one formal 2013 objective. And it's a cash remittance objective. In 2012, as you know, Jackson remitted $400 million, or GBP249 million, following a remittance over $0.5 billion in 2011.

These remittances, approved by the Michigan regulator, are evidence that our expansion in variable annuities over the last few years has been done profitably. And that Jackson is well capitalized. We have consistently maintained our RBC ratio above 400% throughout the period since the financial crisis.

Let's move now to the UK. Our approach in the UK is here, again, driven by a focus on providing long-term value to our customers, in line with our operating principles. For the sake of time, let me focus here on one of our two main product offerings, with profits, the other one being annuities, which represent 59% of our retail sales in the UK.

Our with profit fund has achieved strong returns. Therefore, it has delivered significant value to our customers. This performance enabled us to pay over GBP2 billion in bonuses to customers just last year. And here's a good example of how we deliver tangible value to our UK customers.

Moving on, the UK has maintained its focus on disciplined capital allocation, concentrating only on the lines of business that can generate high IRRs and short paybacks. This focus has led to retail new business profits growing by 19% year on year, while new business strain was essentially flat. And significantly lower than in '09, which is one of the key achievements of the UK management team.

This growth has been led mainly by a favorable product mix, higher annuity sales and lower sales of low-margin corporate pension products.

So moving now to M&G. M&G's performance has been strong for several years. Central to M&G's success has been its focus on delivering investment performance. Over three years, to the end of 2012, 61% of M&G's retail funds under management are performing above majors.

M&G's another illustration, therefore, of how delivering value to our customers through strong investment performance can, over time, translate into profits and cash and, ultimately, returns to shareholders.

In 2012, M&G saw exceptionally strong net inflows in both its retail and institutional business. And this has led to its overall assets under management growing by 13% from what was already a very high base.

In the UK retail market, M&G has been the number one player for four consecutive calendar years, as measured by both gross and net flows. In Continental Europe, M&G has also been very successful in its diversification strategy from a position where it started from scratch, really, with now offices in 15 countries. And funds registered for sale in 20 jurisdictions.

Continental European net inflows were a record GBP5.2 billion in 2012, accounting for two-thirds of the total net retail inflows. This performance has led to M&G being ranked second among cross-border groups in European net sales. This asset growth, combined with operational leverage, has led to a 6% growth in IFRS operating profits in 2012.

Finally, I'll say a few words on Eastspring Investment, our Asian Asset Management business, which Nic will cover in more detail in his section. We believe this business puts us in a favorable position to capture the opportunities stemming from the rapidly growing Asian wealth. But also from the significant demand from western investors for exposure to Asian growth. And Eastspring just opened an office in the US to tap into that. We are confident that, over time, our investment in Eastspring will deliver significant value to our shareholders.

So I've tried to bring to life how our operating principals focus on customer and distribution, use of balanced metrics and disclosures, capital allocation and risk management, have been part of the performance of future for our businesses, with strong IFRS profit growth in Asia, 26%. And growing cash remittance is 56% growth in 2012.

Jackson remitted GBP249 million of cash while a maintaining a RBC above 400%. And the UK remitted GBP313 million of cash. M&G had a strong year with GBP16.9 billion of net inflows and a 6% growth in IFRS profits. This underpins our Group's performance. Over the last seven years, we have grown, for the Group, new business profits at 17% CAGR. And more than trebled the Groups NBP in the process.

Moving to IFRS, we have grown IFRS profit at a 16% CAGR over seven years, almost trebling, multiplied by 2.8 as I think preferred. And cash remittances have grown at 40% CAGR over a seven year period. This was achieved in the face of significant macro headwinds in the year from '08, '09, '10, '11 and '12. And these growth rates have allowed our profits to double every four to five years.

We believe this performance validates our strategy, the quality of our franchises, our geographic footprint with a limited exposure to the eurozone. And our focus on execution.

Finally, we have continued to make good progress towards achieving our objectives, which are growth, to double Asia business profit and Asia IFRS profit in four years. And cash. As a Group. And as you know, we have been focused now for a number of years on cash generation; free surplus generation has been our main KPI to assess our cash generation. And the performance here has been strong.

We have been able to generate cash and capital organically and, as this free surplus generation chart shows, the more free surplus we generate the more freely can capital flow around the Group. And this, ultimately, increases our ability to remunerate our shareholders with growing dividends.

The Board has announced this morning that we have rebased upwards our dividend by 4p, a growth of 15.9% over 2011. This is the second rebase of the dividend in three years. And it reflects our confidence in the Group's prospects and in its strong outlook. And with that ,I will now pass over to Nic.

Nic Nicandrou {BIO 15589153 <GO>}

Thank you, Tidjane. Good morning, everyone. My presentation follows the now familiar and increasingly popular theme of growth and cash, with a detailed look at the drivers of our performance in 2012. And an update on our capital position and balance sheet.

Let's start with the financial headlines, which are summarized on this slide. In 2012, we have continued to build on the positive momentum of recent years, delivering good growth on all financial measures, with new business and IFRS profit reaching new highs both at GBP2.5 billion, up 14% and 25% respectively.

It is noteworthy that we have done this in a period where interest rates took another step down, which highlights the quality of our new business franchise. And the resilience of our in-force book of business.

Expressed as pence per share, our IFRS earnings were up 14p to 76.8p. And our shareholders funds, on an embedded value basis, were up by over GBP1 to GBP8.78 per share.

Turning to cash, free surplus generated has exceeded the GBP2 billion mark for the first time. And this has allowed the businesses to remit GBP1.2 billion to the center, yet more tangible evidence that our strategy delivers both growth in earnings and cash.

The combination of high earnings and strong cash generation has enabled us to rebase the full-year dividend upwards once again, a strong signal in our confidence in the future prospects of our business.

Turning to new business profit, this metric was up 14% to GBP2,452 million. As you can see on this slide, we have reported strong growth in NBP across Asia, the US and the UK, maintaining our internal rates of return in all three regions at above 20%. The benefit of offering a focused product set in those parts of the world where consumer demand for what we sell is strong is self-evident.

In 2012, our value of a volume philosophy saw us continue to take pricing actions. And direct our investment to the highest return and shortest payback opportunities. By doing this, we have successfully defended the economics of our business. And have delivered the strong returns that you can see on this slide.

In Asia, NBP increased by 18% to GBP1,266 million, outpacing the growth in APE with both agency and bank distribution increasing NBP at similar rates. In fact, the year-on-year increase would have been 23%, had it not been for the impact of lower interest rates and the appreciation of sterling.

The improved profitability in the region reflects a higher sales mix of health and protection, up 2percentage points to 32%, a favorable shift in country mix. And our deliberate actions to slow down sales in lower margin products in Malaysia, Korea and Taiwan. The benefit of these actions became clear in the Fourth Quarter when NBP was up 23%, compared to the same quarter the previous year.

In the US, NBP increased by 7% to GBP873 million, slower than the growth in sales as the historically low interest rate continued to weigh on profits. In the course of 2012, we have regularly and proactively re-priced our products. And modified their features, to ensure that they continue to meet our return requirements in the new interest rate environment. As a result, the returns of our US business remain very attractive and are well above historic norms.

Our UK business has delivered a 20% increase in NBP to GBP313 million, although some of the increase has been driven by a spike in retail sales ahead of RDR. Business mix was favorable with higher volumes of individual annuities and with-profit bonds, as well as a GBP39 million contribution from bulk annuities. In my view, the returns in our UK business remain best in class, particularly when you bear in mind that the 20% increase in NBP was achieved whilst investing 17% less capital.

I would like to reinforce our discipline around new business profitability by analyzing the movement in this metric between the two periods. The negative GBP108 million, which you see in the light blue bar on the left, represents the effect on NBP of the fall in long-term yields, with some 60% of that GBP108 million relating to the US. And 30% relating to Asia.

You can see underneath that this adverse movement has been almost entirely offset by the proactive actions we have taken to price for the environment. And to manage business mix. So what's coming through is the effect of high sales volumes, which contributed a total of GBP305 million in 2012.

Not shown on this slide is the contribution to NBP from Europe pure risk products, such as health and protection which, in 2012, was GBP875 million, equivalent to 36% of the total, up from 31% the year before. In summary, we continue to drive this metric forward whilst absorbing the market effects. And have improved its quality with a richer content from pure risk business.

Turning now to IFRS, the increase in operating profit of 25% at Group level is almost entirely driven by our Life businesses, where profits increased by 27% to GBP2,580 million. In the next few slides, I will provide you with more color on this increase which, in overview, has been driven by the growth in the shareholder-backed liabilities, the positive shift in mix towards the higher-margin Insurance business. And further economies of scale.

One of the factors that underlines our IFRS earnings' momentum is the sheer scale of our Life inflows. In 2012, these increased by 16% to nearly GBP10.5 billion. And are equivalent to 8% of opening reserves, demonstrating our impressive organic growth. In fact, since the start of 2009, we attracted over GBP36 billion of net Life inflows.

When the 2012 inflows are combined with the effect of the positive equity-market movement, the acquisition of REALIC. And the negative foreign exchange impact, total policyholder liabilities for shareholder-backed business grew by 22% to GBP163 billion. It is this increase that has driven forward both our revenues and our IFRS operating profit in 2012.

Looking at Life IFRS profitability by region, all three businesses have grown their contribution to this metric in 2012. Asia has reported the strongest underlying growth, up 22%, after backing out the one-off gain on the sale of the Group's interest in China Life of Taiwan.

While roughly three-quarters of the increase comes from our four largest markets of Indonesia, Hong Kong, Singapore. And Malaysia, 2012 is also notable for the step up in contributions from Thailand and the Philippines, two of our smaller markets where we're now making good progress.

In the US, headline operating profit has bounced back to GBP964 million, reflecting both business growth. And the normalization of the DAC amortization charge, which was temporarily higher in 2011 for the reasons we outlined last year.

The breakout box adjusts for this effect and shows, in light gray, the new business strain which is now a feature of our US IFRS results. After allowing for these items, Jackson's underlying profits have also increased, reflecting the higher fee income which offset the anticipated slowdown in spread profits.

You can see the GBP67 million contribution that REALIC has made in the four months since its acquisition. This is a little ahead of what we expected, due to a number of one-off items. But, at this stage, it is too early to update the guidance that we have previously given you, which is GBP115 million of profit before tax in the first 12 months of ownership. In the UK, IFRS profit was higher at GBP703 million, mainly due to increased earnings from annuities.

In 2012, we have made further progress in improving the quality of our Life sources of earnings by maintaining our bias towards insurance margin and fee income ahead of spread income. These three sources of earnings are now making roughly equal contributions, as you can see on the slide, of between 28% and 29%.

Our emphasis on risk products, such as health and protection, has driven a 40% increase in insurance margin, shown in red, which is pleasing to see, as this source is the least sensitive to economic conditions. Fee income, in dark blue, is also growing fast at 24%. Combined, these two more stable and predictable sources of earnings now account for over half the total. In contrast, spread income has increased by a much smaller 1%. And corresponds to a more-modest proportion of the total.

So what you see is a very healthy increase in both the quality and the balance of our earnings, which will continue to improve as we execute our stated strategy. And as we realize the benefit of the REALIC acquisition.

Taking a closer. And a more detailed, look at the sources of earning and starting with Asia. As you can see in the top left, total Life income was up 24% to GBP2,427 million. The fact that income is growing at a faster rate than total expenses highlights, once again, the benefits of increased scale, as we build out our business in Asia while maintaining control of costs.

Below, towards the right of the slide, you can see that the technical and other margin remains both fast growing. And a dominant feature of Asia's Insurance earnings. Within this category, the Insurance margin grew by 25% to GBP594 million, reflecting the strong growth in new health-and-protection business. And positive claims' experience. This category also includes the margin that we made from premium reductions to cover costs, which is higher at GBP1,453 million, in line with the growth in Asia's premium revenues.

In the US, Jackson's total income, shown in the top left, is up 18%, to GBP2,031 million, outpacing the increase in total expenses of 16%. You can see, once again, the strong influence of operational leverage within Jackson's results.

In line with my previous guidance, spread income has fallen as margins tightened to 239 basis points during the year, down from 258 basis points in 2011. Now unless we see a material upward movement in yields, we would expect the margin to continue to trend down towards the 200 basis points' level over the next three years.

The fall in spreads also reduced expected return on shareholder capital, although the decrease here mostly reflects the income foregone on assets used to fund the acquisition of REALIC.

In 2012, fee income has overtaken spread income for the first time, growing by 29% to GBP875 million. The increase reflects the overall benefit of GBP7.8 billion of net inflows in VAs. And an overall 11.2% return on separate-account balances. Pricing actions, over the last 18 months, have also delivered a small uplift in annual management fee to 199 basis points. Finally, the technical and other margin was boosted by REALIC's Life Insurance earnings since September.

In the UK, the higher profit reflects the combination of a small increase in income. And a modest reduction in expenses. Spread income, on the left, was higher at GBP266 million, as a result of the 12% increase in sales of shareholder-backed annuities. And a GBP31 million contribution from the two bulk deals written in the year. In 2011, bulks contributed GBP23 million. Income from with-profits, shown in the bottom right, declined in line with the reduction in policyholder bonuses.

The mature nature of our operations. And the low levels of investment in new business, are placing downward pressure on the earnings growth in the UK, which could see our profit level off in the near to medium term. We would be entirely comfortable with this, as it does not detract from the important role that the UK plays in our Group.

I presented this slide for the first time last year to demonstrate the strong growth in cash profit from our Life operations. Cash profit represents the very pure measure of income less expenses, ignoring the effects of deferral and amortization of acquisition costs.

What this chart essentially highlights is that our IFRS earnings are very close to cash. 2012 provides us with a further data point in this progression and shows, in the light blue columns, that total Life income has nearly doubled since 2008. This has been driven by both our ability to attract sizeable Life inflows over this period. And our deliberate focus on products with very attractive profit synergies.

Expenses, in the dark blue, have grown at a much slower pace, generating a 2012 cash profit that is 2.4 times higher than four years ago. And is equivalent to an annual growth rate of 24% over this period.

Staying with the concept of cash profits for a bit longer, I have shown you on this slide the same chart. But focusing purely on Asia. The progression since 2008 is even more striking here, with income 2.4 times higher. And cash profit increasing over 16 times from GBP58 million to GBP941 million in just four years.

Asia's cash profit momentum may surprise some of you, as logically, a fast growing business needs to recycle cash profits to finance its rising acquisition costs.

Factors, such as our brand, our scale, our proprietary distribution and our disciplined approach to product design, have all contributed to the momentum that is depicted on this page for Asia. And are important underpins to Asia's ability to continue to deliver both growth and cash.

Moving to Asset Management and other Non-Life businesses, IFRS profit was higher at GBP518 million. As you can see in the breakout box, higher earnings from M&G and the US were partially offset by a small reduction in Eastspring and the continued run off in the commission generated by UK General Insurance.

Looking at M&G in more detail, underlying income, which strips out the effect of performance-related fees and earnings from associates, was up 10% to GBP734 million. The increase is driven by higher average funds under management which, in 2012, benefited from record inflows and stronger equity and bond markets.

It also reflects a positive shift in mix towards third-party business, particularly retail, which explains the small average fee uplift to 36 basis points.

The improvement in the cost/income ratio to 59% illustrates the positive operational gearing from continued growth in the scale of M&G. So the combination of underlying income and expense produces an underlying 14% year-on-year increase in M&G.

The rapid expansion of M&G over the past few years inevitably needs to be supported by some infrastructure investments. We are, therefore, unlikely to see further step-up improvements in the cost/income ratio over the next couple of years and, depending on market levels, might even see a modest uptick.

Eastspring Investments reported a drop in profits to GBP75 million. Eastspring's overall fee income was flat year on year, despite the 8% increase in average funds under management, reflecting a consumer-led shift in mix away from equities and to fixed income funds, which attract lower fees.

Ongoing investment in the rollout of offshore capabilities, which in 2012, included opening a US distribution office and starting an operation in Indonesia. So costs increased by 5% in 2012.

Finally, other income and expenses have changed little year on year, with the main difference being the positive impact in 2012 from the RPI to CPI change to our pension schemes.

Turning to our results on an embedded value basis, you can see from the chart on the left the total Life profit was 10% higher at GBP4,429 million, equivalent to a return on the opening embedded value of 15%.

All three Life businesses have reported increases in operating profit, with higher contributions from both new and in-force business, despite the lower investment return assumptions assumed in these calculations. This effect was more pronounced in Asia, where long-term yields took another step down in 2012.

The impact of lower future investment returns is not clearly illustrated in the top right-hand chart by looking at the part which is labeled unwind. We estimate that, without the negative impact of these assumptions, the GBP1,493 million shown for full year 2012 would have been GBP83 million higher, pushing the year-on-year increase to 9%, which is more reflective of the underlying growth of our book.

The focus on managing our back book for value saw a continuation of the positive operating experience, which contributed GBP349 million to our results. Assumption changes totaled a positive GBP142 million, which is really small when set against the Group's GBP22 billion embedded value.

This next slide summarizes the experience profits and assumption changes by each business. In Asia, persistency had a small net positive impact on earnings in 2012. Other factors, including mortality and morbidity, have remained in positive territory, in line with recent trends.

In the US, the positive contribution to our results from both spread and other items reinforces both our conservative approach to assumption setting. And the success of the action taken by management to mitigate the risks associated with the current environment.

In the UK, further reductions in corporation tax have had a positive effect on our results, once again. Within the negative GBP16 million shown under other items in 2012, we have taken a net charge of GBP52 million in aligning our longevity assumptions with the CMI 2011 output.

Now the fact that all three businesses have delivered positive experience in a year where global macroeconomic factors were so negative that it could have adversely impacted customer behavior, confirms what both quality and the resilience of our franchise.

Before I move on to the balance sheet, I will briefly run through the rest of our profit and loss account on both the IFRS and the EEV basis.

On an IFRS basis, the impact of investment variance of positive GBP0.2 billion after tax, reflects increases in both bond and equity values and a relatively modest movement in VA guarantees net of hedging.

Profit for the period is, therefore, 55% higher at GBP2.2 billion. After allowing for unrealized gains on Jackson's fixed income portfolio, foreign exchange and dividend payments, our retained earnings in 2012 were a positive GBP1.8 billion, equivalent to 69p per share.

Switching to EEV, investment variances were also positive at GBP0.6 billion after tax. And include the day one gain of GBP453 million relating to REALIC.

Profit for the period, on this basis, was 78% higher at GBP3.8 billion. And after allowing for foreign exchange and dividends, our 2012 retained earnings boosted our shareholder funds by 107p to 878p per share.

Turning to the balance sheet, my message here is the same as the half year. We remain well capitalized and defensively positioned, with a low direct shareholder exposure to the eurozone, a cautious stance on credit. And a conservative approach to hedging.

The Group's IGD surplus, at the end of 2012, increased to GBP5.1 billion. And I will come back to this metric on the next slide.

Jackson's RBC level, at the end of 2012, was broadly unchanged at 423%, which is a significant achievement, in my view, when you consider that this is after supporting its balance sheet growth, after paying a large dividend for a second year in a row. And after financing the acquisition of REALIC.

The capital integration of REALIC was completed at the end of the year. And this has allowed us to realize higher capital synergies sooner than we expected. I would remind you that the reported RBC excludes the positive marks on our interest rate swaps, which amount to $581 million.

The Group's liquidity remains sound; the $700 million perpetual tier 1 notes raised in January 2013 further supports the financial flexibility of the Group, while taking advantage of the low interest rates.

We have updated the information relating to Jackson's capital formation, capital sensitivities to shocks and policyholder behavior. And movements in guaranteed benefits net of hedging. We've nothing noteworthy here. So I won't be covering them in my presentation but, as I said, we have included all of these in the appendix slides of your packs.

In summary, a strong operational performance and balance sheet conservatism continues to provide us with a security that we seek in the current uncertain environment.

This next slide charts the strong progress that we have made since 2008, in strengthening our IGD surplus which, at the end of 2012, stood at GBP5.1 billion, equivalent to a cover of 300%.

We have worked hard to achieve a healthy cover on this basis, in order to ensure that regulators allow our capital to flow freely. The high level of IGD surplus also acts as a cushion to both negative market shocks. And the effects of regulatory change.

The fact is, though, that IGD does not fully capture all of the components of capital strength, some of which are illustrated in the second bullet on this slide. There is broad agreement that, ultimately, it will be beneficial to replace the IGD regime with one that is more risk based. Given the delay in Solvency II, we're working with regulators to ensure that the current capital regime remains robust. And that it evolves in an appropriate way.

Earlier this month, we agreed with the FSA a change to the method of calculating Jackson's contribution to the IGD. Up until now, the IGD surplus included Jackson's capital above the 75% RBC level; going forward, the calculation will include Jackson's capital in excess of the 250% RBC level. We're comfortable with this change, as it brings the IGD calculation more in line with our own assessment of free surplus, which uses a 235% RBC threshold.

Therefore, while this change reduces the reported level of IGD, it has no impact on the way the US business is managed or regulated locally. And does not affect our cash to remittance plans. Applying this revised approach. And bringing the calculation up to date, our IGD surplus on February 28 remained a healthy GBP4.4 billion, equivalent to a cover of 250%.

Moving now to free surplus and cash generation; our free surplus stock has increased from GBP3.4 billion to GBP3.7 billion at the end of 2012. As you move from left to right on the slide, you can see the GBP2.7 billion of free surplus generated by our in-force book, which is higher than last year, with strong contributions from all of our businesses.

I have already covered some of the actions that we have taken during 2012 to optimize capital consumption. As a result, we used GBP618 million to write new business, equivalent to a reinvestment rate of 23%, in line with recent trends.

After taking into account market movements and other items, which includes GBP169 million of free surplus utilized in acquiring REALIC, our free surplus stock rose to GBP4.9 billion, allowing us to remit a record GBP1.2 billion to the center.

I want to take a moment to highlight the Group's capital velocity by going back to 2010, the start of a four-year period for our free surplus and cash cumulative targets.

Starting on the left, the dark blue box shows that, during this three-year period, our existing Life businesses have generated an expected level of free surplus of GBP5.5 billion. In addition, positive experience has contributed a further GBP0.7 billion; asset management delivered nearly GBP1.1 billion; and return on excess surplus, a further GBP0.3 billion. Adding these flows to the free surplus stock at the start of the period brings the total available to deploy, over the three years, to GBP10.1 billion.

So how has this surplus been deployed? Moving one column to the right, you can see that a portion has been used to absorb the GBP1.4 billion of market-related and other movements, which includes foreign exchange. A further GBP1.8 billion was reinvested in new business. And we took the opportunity to strengthen the free surplus buffers held in the businesses to GBP3.7 billion.

The remainder, totaling GBP3.2 billion, was remitted to the center. And as you can see in the chart on the right, GBP0.8 billion of this was deployed to cover interest and central costs; over GBP1.7 billion was passed on to shareholders in the form of dividend; and the rest was used for various corporate purposes, including investment in distribution.

So what this highlights is both the consistency and the pace at which our businesses have been able to organically create underlying free surplus, after financing new business; how quickly this free surplus of GBP5.8 billion has translated into the GBP3.2 billion of cash to the center; and how these remittances have covered central outgoings and funded our progressive dividend policy.

Therefore, in the last three years, our discipline of managing the in-force book for value. And our relentless focus on writing high return, fast payback new business, have quickly translated into the generation of sizable and reliable capital, which has supported a growing level of remittances to Group.

This virtual cycle helps improve our financial flexibility at the center. It strengthens our ability to act on strategic opportunities. And ensures that our policy to grow the dividend from the new level is well supported, going forward.

On this next slide, I reemphasize the reliability of future free surplus generation by illustrating the undiscounted VIF monetization profiles of our Life operations for new and in-force business.

The dark blue bars in the top chart represent the end 2011 in-force monetization profile, as we reported a year ago. The light blue bars represent the updated profile of the end 2011 book of business, one year later. This is marginally higher than before, despite the effects of low interest rate environment, reflecting both a positive operating performance. And the addition of REALIC.

When we now add the cash flows from the 2012 new business cohort, shown in red, we have an overall profile that is higher than the one we started with, once again providing more evidence of the powerful capital dynamics of our business model.

In conclusion, I want to leave you with three key messages, which I will do by reference to my opening slide.

One, in 2012 we have grown the size of our IFRS profits by 25%, to over GBP2.5 billion. And have improved both the quality and the balance of these earnings.

Two, by securing record levels of new business, at attractive economics. And by managing our back book for value, we're accelerating the generation of free surplus and cash to Group. And in doing so, we are improving our financial flexibility.

And three, that the 4p upward rebase in our dividend, for the second time in three years, is a clear signal of our confidence in the future prospects of our business. With that, I will hand you back to Tidjane.

Tidjane Thiam {BIO 7518525 <GO>}

Thank you, very much, Nic. Nic has showed you, in some degree, the details of the quality of our financial results and their resilience. I'm sure a fair question you may have now for us is, what lies ahead. For us, the answer is possibly boring for you. But it's very much more of the same; profitable growth and cash, or to be more precise, profitable growth in Asia and cash generation from all businesses.

Asia remains an incredible growth opportunity, the best one for this Company. The structural trend in Asia, of a rapidly growing and increasingly wealthy middle class with significant health and protection needs, high savings ratios, rapid urbanization, which is important for our model. And low penetration, underpins the demand for life insurance products for decades to come.

Obviously, the forecasts show that Asia will account for 66% of the world's middle class by 2030 versus 28% today. Almost 90% of the growth in the world's middle class in the next 20 years will take place in Asia. This growth in scale of the middle class is accompanied also by rising wealth per capita. Asia is now home to the largest number of millionaires in the world. And that number is growing fast.

I have used the growth escalator chart before, which plots the relative GDP growth per capita of the countries we are focused on compared to the US, historically. The reason I keep coming back to this is that rising GDP per capita is very highly correlated with life insurance growth.

This chart demonstrates that most of the sweet spot countries have a significant amount of headroom for future profitable growth. However, to be frank, everybody can see this opportunity in Asia. And this is only a necessary condition for success, not a sufficient condition. We, at Prudential, are particularly well placed to capture this opportunity, given our market leading platform in life insurance with PCA. And in asset management with Eastsprings Investment.

We are the largest player in the region, as measured by new business profits, while we also hold top three market shares in 6 of the 11 countries. In addition, we have access to 15,250 bank branches. We have a productive agency force of over 400,000. And last but not least, we have already a strong customer base. However, growth, as we all know, only matters if it's profitable. So let's look at our track record here.

What I want to show here, over a long period of time, is the evolution over 15 years of APE and IFRS profit in Asia. From '97 to '07, what you can see is that there is only a loose correlation between these two metrics, with APE sales growing by 22% CAGR, while IFRS profits increased only by GBP186 million in absolute terms.

The shift in focus we've had for a few years on delivering both IFRS profit and cash has had a positive impact, as you can now see here. From 2007 to 2012 IFRS profits, from a much larger base, has grown by more than 5 times. This is truly a transformation of the business, achieved by Barry and his team, while APE grew at a slower rate of 1.8 times, 13% CAGR.

This focus has led to a large, growing in-force book, which is delivering now significant amounts of both profits and cash and not just sales growth. You can also see from this chart that, since '07, our Asian business has doubled twice over the last five years; once between '07 and '09. And then again between '09 and '12.

So the structural trends in the region. And the unique nature of our Asian franchise, make us confident that profitable growth in Asia can be sustained over the medium to longer term. To achieve this, we will continue to execute our strategy with discipline.

We will continue to invest in distribution, which is key to this, both in agency and bancassurance. We will continue to allocate capital to countries, products and channels, which provide the best IRRs and the shortest paybacks. We will not hesitate to step back when necessary, as we have shown this year in Korea and Taiwan.

What about the rest of the Group? We will continue to manage the rest of the Group for value. In the US, we will continue to target the baby boomer opportunity. And we will do so whilst meeting our return hurdles and staying within our risk appetite.

In the UK, we will stay focused on continuing to deliver long-term value to our customers. And we will continue to manage through a period of significant regulatory change. At M&G, the team is focused on delivering investment performance, which is, of course, core to driving net flows. And hence, profits.

These three businesses will remain focused on delivering good earnings and generating cash. So as a Group. And as you know, we focus on our businesses on cash generation. This focus has paid off through growing dividend remittances, enabling higher shareholder dividends. The second dividend rebase in three years reflects our underlying confidence in the Group prospect and its strong outlook.

To conclude, in 2012, our businesses have delivered both profitable growth and cash. And our shareholders have seen the benefit of this performance through share price appreciation and a growing dividend. Our strategy remains clear and unchanged.

Asia remains our key driver of sustainable growth, building on the significant opportunity that the emergence of a growing and increasingly wealthy middle class in the region represents. Our best opportunities lie in Southeast Asia, where the depth and breadth of Prudential's franchise is a source of strength.

All business units will continue to focus on generating cash. We will achieve this by continuing to exercise discipline and by maintaining a robust balance sheet. I am confident that our Group is set to provide a distinctive combination of growth and return for our shareholders, by meeting the needs of our customers across the world.

With this, thank you for your patience. And over to you for questions.

Questions And Answers

Q - Jon Hocking {BIO 2163183 <GO>}

Jon Hocking, Morgan Stanley. I've got three questions, please; firstly on the US. With the rally in the S&P, what are you seeing in terms of allocation to equities? Is it rising, maybe just because of market performance rather than an active decision by the policyholders?

What is your risk appetite for selling variable annuities, given the high level of markets? You've got a very low in-the-moniness proportion at the moment. Is the risk here that you carry on selling at these levels and the market falls?

Second question on Asia on the bancassurance side; you've clearly got strong momentum there. To what extent are your benefiting from these being largely first-generation bank deals, where you've brought a lot of intellectual property to the table. And in the medium term, these become more commoditized. And you see margins fall?

Then the third question, when you set the targets in 2010, you pretty much achieved those targets a year early. You spoke very clearly about the desire to create optionality in terms of the Group structure, I think was the phrase you used. Can you comment on where we are now and what you're thinking about the Group structure as we go forward? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, thanks a lot, John. Rally in S&P and effect on allocation to equities. Mike, do you want to take that?

A - Mike Wells {BIO 4211236 <GO>}

Yes, it's not material. You're still seeing the equity levels that we showed in New York, low 60%s, slightly higher on sales by just a few percentage points. I think one of the more astute comments I heard the other day on one of the morning financial talk shows, they were saying this is the least loved equity rally in the United States, the teriad. The individual retail shareholders just have not seen it as something they wanted to jump into. So they're extremely cautious. And it'll be interesting to see the stats when they're out. And how much of it they actually participated in.

On the S&P level, we don't just look at S&P levels on looking at risk appetite and how much sales we'd like. If you think about in contrast to that, the VIX is at a record low, interest rates are unarranged, they're acceptable if their hedge demands correctly. So we still come back to internal metrics on the US business, how much of a with life withdrawal benefit product we want to sell. And also in the larger picture inside the Group. So we take into account the market level. But it's not the driving factor.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. We had a question on bancassurance and if we were doing first generation business. And whether margins are going to decrease. You want to give --?

A - Barry Stowe {BIO 15021253 <GO>}

First of all, I'd remind you, as I think both Tidjane and Nic pointed out, the SCB relationship grew well in excess of 40% last year. And I think, technically, you would have to call that a second generation deal because it's renewed once. And we're now in our 15th year doing business with SCB in Asia.

So I don't think -- UOB is obviously a newer deal, Thanachart is a very new deal. But SCB certainly is not. And it's performing at the highest levels in 2012 that it's ever performed. I think that speaks to the value that's generated. And its unique value that's generated.

By the way we do these deals, Tidjane alluded to the insurance specialists that work in-branch, the strong execution that we've had around that model, I think that's one of the reasons it performs as well as it has in the past. And as recently as this last year. I think it speaks to the value of the exclusiveness of these relationships.

We have lots of relationships across the region. But well over 70% of the economics of this channel come from these exclusive relationships; that's why we continue to focus on those. The relationships, obviously you would not be getting the level of growth that you're getting in SCB and UOB and the others where you're not generating strong value for consumers.

So I think the model is extremely durable and will continue to perform extremely well going into the future. Clearly, there's going to be competition for these deals in the future. But we continue to believe, for all the reasons I've just said, that we have a level of credibility with respect to performance. It's very different from what we've ever had, that what anyone else has. We feel very, very good about where these deals are headed.

A - Tidjane Thiam {BIO 7518525 <GO>}

If I can just add a few words and build on that? This is possibly the heart of the difference, sometimes, between some of the analyst community or investors and us. We are all trained to have a critical mind and believe that everything that goes up will go down, etc., etc. There are times in economic history (inaudible), that's just wrong. And we think that's one time like that.

I'm sure in America it's very useful this historic charge. In America in 1850. And you think that the growth is a flash in the pan and it's all going to peter out. And the amount is not going to go down and America's going to get nowhere, you get everything wrong.

I bore all my team because I encourage them to read; I don't think I'm allowed to talk about the book. But I will. It's the Transformation of China, Ezra Vogel, which is a phenomenal -- some of you may have read it, which explain blow by blow everything that happen in China since the '60s or '70s. If you're in China in 1980 and you say, oh okay, this is going to last 10 or 15 years, you're just going to get everything wrong.

We have a few hundred thousands of customers in places where the population is huge, industrious, hard working. We are doing all the right things and we keep telling you, you know what, it's going to continue and the margin's going to go down. Since you've been in this room, every time we've been on the stage together we've had, when are the margins going to decrease, or when they increase?

A - Barry Stowe {BIO 15021253 <GO>}

The first day we did which was December '06, the questions were resoundingly, we were at I think 54%, it was how far will they drop and how fast?

A - Tidjane Thiam {BIO 7518525 <GO>}

Surely they will decrease from here. So we hear the skepticism; we're always going to continue saying what we believe and try to deliver on that. But that's really the story; that's the story. That's what delivers these numbers; we are at the beginning of an enormous opportunity.

Will there be more competition? Yes. Will there be more players? Yes. But with the microeconomics obviously are so healthy that you're making good returns. And to not be in the banking channel would be just mad. Really, the result I showed you of financial asset ownership, that's a big wave. And the price we are willing to pay is because we see some of our projections. I'm telling you, UOB has doubled every year since we signed it. So that price we paid, was it a good price or not a good price?

We think that we know these markets very well. We think that we're very well positioned to price the growth in those markets. And we have thousands of agents selling insurance in those markets. So give us some credit. We have a sense of the growth potential in those places. And when we pay a price it's really very willingly and because we're absolutely 100% sure we'll create value from that price.

And we can argue, our friend Greg can argue over whether we're going to grow at 5% or 10%. We believe we're in, with all respect, a better position than you to know how much bancassurance we can sell in Singapore or Hong Kong. That's to initiate the debate.

A year early the target, look, while it's a nice (inaudible) I'm glad to get the question, let's say that. I think when we started the targets were described variously as stretching, demanding, etc. So we've achieved them one year early. If you can just allow us to catch our breath. And be happy that we've achieved them one year earlier. And then we'll think about the rest.

What we'd like to convince you of is really what I showed on some of those charts, that this business, because of the phase it is in, in its development, can double bottom line over and over and over and over again. If you accept that, then we'll be in agreement. And that's what we believe. The targets were just a way to convey that.

If you're doubling every three to five years, you're growing at a CAGR between 15% and 25%. So (inaudible). By saying four years, all we did is hang our hat on 19%; that's all it does. Double in four years is 19% CAGR. So you've got a corridor, of course, which frankly there's a degree of risk in saying, okay 19%, which we did because it's a bit, if you wish, taking a macroeconomic risk which really we have little appetite for. Okay?

What I can tell you with total confidence is that this business has a potential to double every three to five years . If you force me to commit to doubling in four, I will. But the reality is, there is a variance and that's the economy. We don't control the economy. And if when all the players are aligned we can do it in three years. At difficult times. And that's been the worst of our experience, we'll do it in five or six years. And that should give you a guidance in the sense of what we believe about the business.

So back to optionality. What we say is, it's better to have options than not. Sometimes, I regret having used that word because it's so fanciful, it's captured your imagination. All I was trying to express is very common sensical which is, in life it's better to have options than not to. So that's true for a company or an individual.

And part of our job as management is to create options because, in an uncertain world options are valuable. It's volatility even is (inaudible) options, like option pricing. In an uncertain world, you're better off if you have options than if you don't. So we've worked very hard to put the Group in a position where it actually has a lot of options. We think that's valuable. It doesn't mean necessarily you have to exercise every option because you have them. But we believe that's valued by the market. And over time, flows into the share price.

What I will say about the Group is, it's performing well. I'm trying not to be (inaudible) actually make a factual statement. The strategy we have is working well, has now worked well across a cycle, very different economic circumstances. And produced very good results on a comparative basis in the industry.

What it does is that it puts the bar very high on any change because your benchmark, you have to think a few years ahead, you've got to do something in the next two or three years, where is the share price going three years down the road. If you continue to deliver like we have, that's your benchmark if you don't change anything.

So to go and do anything, you have to have a high degree of confidence. But not anything you doing has a risk reward that is worth it. And let me emphasize -- I'm looking at my Chairman here -- let me emphasize that the Board pushes us to conduct with rigor regularly and we have these discussions. And I think the position of the Company, for the time being, is that this strategy is working very well, creates a very high benchmark. And we don't see today an action we would take that would have a risk reward that is worthwhile.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, BofA Merrill. Just on remittances, back to the Group, particularly interested in your thoughts around where we go from here with Asia and the US. Asia free surplus generation was GBP829 million, you remitted GBP341 million. The US, probably more importantly, was over GBP1 billion and you remitted GBP260 million. So what should we be thinking about when we think about how that moves, going forwards?

Second question; UOB, how close to the penetration levels at UOB are we compared to some of your other partners, just to gauge where we can go from here?

And thirdly on the US, you talked about constrained volumes somewhat. News from or gossip from the market is that others are doing the same. I just wonder is it a race to the bottom in the features war? Can you control your sales in the way that you'd hoped? Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thanks, Blair. Remittances, Nic, do you want to take that?

A - Nic Nicandrou {BIO 15589153 <GO>}

I'm afraid I'm going to be a little boring when it comes to that. Just stealing cue from Tidjane, we set targets for 2013; our first objective is to meet those. Of course, as I said, we are a highly capital generative business so, as time passes, provided the disciplines remain, which is what we are focusing on. And more and more capital will be generated and more and more will be remitted to the center.

That is there for a number of reasons, not only to effectively underpin the reliability of a dividend payment to shareholders but, ultimately, ensure that we have enough capital in the business to take shocks as they emerge in our stride. And that's key. We have strong opportunities in a number of markets.

And it would be criminal to find that those opportunities aren't fully leveraged, are taken in our stride if we, for whatever reason, a shock takes place which reduces our capital buffer. So having enough to absorb a shock is important. And that's how we manage it.

We've given you some guidance as to remittance ratios; that was over the 2009 to 2013 period. When we get beyond that, we can address that topic again.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Just to make sure I understand your second question, Blair, it was about ROE and UOB, you were saying penetration but I missed --

Q - Blair Stewart {BIO 4191309 <GO>}

Penetration, yes.

A - Tidjane Thiam {BIO 7518525 <GO>}

Penetration inside UOB?

Q - Blair Stewart {BIO 4191309 <GO>}

Amongst the customers at UOB.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, okay, sure.

A - Barry Stowe {BIO 15021253 <GO>}

You'll remember we've only been at this for three years with UOB and track record already, as Tidjane has given some numbers around, is very strong. But we've only been at it for three years. Now I wouldn't want to suggest to you that we can commit to 60%, 70% growth every year as we had last year. But we are still at very low levels of penetration relative to the Bank.

UOB's a big bank. Wee Ee Cheong, who's the Chief Executive, runs a very entrepreneurial bank. So we benefit from the fact that the business, well, our business within the Bank is growing fast. The Bank's growing pretty fast too, not just in Singapore but in Malaysia, in Indonesia, in Thailand; they're now doing some business in China.

So the pie's growing faster than we can eat it, isn't that what we say about stuff like this? The opportunity's getting bigger and bigger and we run very fast to take advantage of the opportunity. But there's still an enormous amount of headroom left in UOB. So I wouldn't be concerned about that.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. There was a third question on the US, yes. And a race to the bottom.

A - Mike Wells {BIO 4211236 <GO>}

Yes. So there's two parts to your question. But on the can we control volume, we actually hit the number almost on the head that the Board and Jay Cho asked us to hit last year. So that was where we wanted to be. And that's the -- at the end it got a little tighter. As you know, we pulled -- the 10 35s from the last six weeks were a challenge. But we got to where we wanted to be.

The hardest thing for us to control, right now, is not the pricing and the profitability of the product so much as it is competitive behavior, the two lead competitors being Pru and Met last year. They have both reduced their appetite, Met down from GBP30 billion to GBP17 billion, which is a pretty material drop obviously. And they have given guidance at a lower number and then Pru has as well.

To Tidjane's slide on the feature race, we have never built our plans off of market share or off of top line. And nor is this a particularly good point in the cycle to do that. I think we need to look at Jackson's balance sheet again and risk appetite and mix of fees and quality burnings and all the things we look at inside the Group to make those determinations. But, to your point is it a race to the bottom, the second-level players, call it players 4 through 6, will be the big benefactors of more constrained sales. No question. And the industry sales are off a few % going into the -- in December.

I think it's key that the products maintain a proper balance between stakeholders. As I mentioned to you in December, I think everything we sell adds value to the investor. I think if the industry's not careful and it prices too aggressively, right now, they'll lose some of that. And that will create an industry issue. But I don't think we'll get there. As I mentioned earlier, the cost of the hedging is down in this point in the cycle. There's other pressure, I think, on these firms. I don't know how Pru and Met are articulating their US strategy, right now. And it's not my place to speak to but we like where we are. We like the volumes.

I think the noise, just to the last point, you're going to get, Blair, is Elite Access sales are counted by the industry as VA with absolutely no guarantees on them. So as long as we're successful with EA and continue to grow EA, you're going to see our ranking go up. And I need your indulgence to back that out of those metrics. It's not a reasonable comparison to look at Met's GMIB next to our product. But no guarantees.

A - Tidjane Thiam {BIO 7518525 <GO>}

And I think the final point on the customer is really important. I am sure you will have noticed that we don't usually talk a lot of the customer in these presentations. And the shift today is deliberate. I think, well, there are many reasons why it all got very financial during the crisis. But I was very keen today to just step back from that. I think that has been going on for a long time.

We therefore intentionally presentation only talk about cash flow and capital but, at the end, we run a business and people just lose sight of the fact that a product has to be viable. And that is a very important feature in what's going on in the VA market, that people don't take it to a space where it just doesn't make sense for a customer to buy your product. There's a limit to what we can do (multiple speakers)

A - Mike Wells {BIO 4211236 <GO>}

We can see a number of other issues later, if it's not built well.

A - Tidjane Thiam {BIO 7518525 <GO>}

Exactly.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Three questions, if I may? Firstly, your change in the way you do the IGD for the US business; does that chime in with the way that you think you'll be doing the US business, it's obviously to -- with -- if you get US equivalent?

Secondly, could you talk about, in the US, where you are in terms of the hedge fees, which you receive, versus the amount of hedge money that you pay out for hedging, both last year and how you see it this year?

And then thirdly, if you look at long-term metrics, one of the things you are showing is that your cash generation -- I think Nic was showing -- was up 2.4 times since 2008. The dividend, I think, I'm being slightly parsimonious here, is only up 1.5 times. Nothing grows as slowly as the dividend in this Group, which is a slight contrast to some other groups. But could you say how that might -- whether that's a continuing feature over the next five years?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Andrew. I'm disappointed you did not ask me about economic capital. There's something I wanted to say there. But maybe I'll find a way.

Q - Andrew Crean {BIO 16513202 <GO>}

Do say it, if you wish.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you

IGD, look, it's interesting. IGD, the way we've talked about it over the years and during the crisis, was always to guide you to think about it as something for the US, because we've got the credit reserve in the UK. Asia, frankly, from a risk perspective on capital, it's not a big deal; M&G doesn't consume any capital.

So we always said, okay, fundamentally IGD and we have inherited a state -- the IGD thing about it as a US matter, that's why the US discussion is so material to IGD.

I think the guidance we're getting. And now I'm looking at you here, Nic. And I have to choose my words. But Solvency II is for ever now objectively. So it's what we say in our remarks. There is a need and we are -- there is a very active dialog, very organized, all the CEOs now with interest we meet regularly with the FSA.

We started that process in October. And actually I'm very happy with that, it works very well; we have a very pragmatic dialog on how do we move forward. Our understanding is that, right now, the FSA is comfortable with RBC for the time being, having looked at it and having looked at how it operates.

So I cannot speculate on US equivalents, are we going to get it or not. But in the interim period. And with the RBC level set where it is, I think both sides are comfortable that this IGD surplus is with its new definition. So a good way to look at things. And it works. I don't know Nic if you -- ?

A - Nic Nicandrou {BIO 15589153 <GO>}

No, the debate on equivalents, it's very hypothetical because we're not in that world and it's now two or three years away.

There's also a program and a discussion, very active discussion, between the US and European regulators to see if, with the benefit of the extra time, something could emerge that bridges the two. But key to that discussion is the acceptance by Europe that RBC is an appropriate regime to incorporate into the numbers that we will eventually, or at some point, adopt in Europe. And I think getting confirmation, either from in the UK or elsewhere that RBC is equivalent, is a first part in an important step.

Now as to what that percentage will be, it will no doubt then vary by company to company, depending on a number of factors. And it's just premature to speculate as to what that might be.

A - Tidjane Thiam {BIO 7518525 <GO>}

And the reality as we show is that we run the business to 400%, that's what you saw in our charts. That's relevant to us and we manage it to be above 400% RBC. US hedge fees versus hedge fund?

A - Mike Wells {BIO 4211236 <GO>}

It was obviously a good year in that you see the numbers there for the hedging again, with hedge costs down, I think if you looked at -- you want some generic measurements, the VIX historical levels, the question came up I think in New York on what do we think historically on the Milliman index, we don't use it. But even the recalibrated one, which is closer to ours, is down to 95, we're charging 120.

So I think we're comfortable with the fee base we have; we are clearly positioning the hedge. We're not looking to generate as we've talked before an excess return on any difference there; we're looking to offset more risk.

So I think our statement in New York was we see more short-term risks in the market so we're hedging accordingly. But we're still looking at tails as where the money's going. So there's no material shift in the hedge structure; it's a little lower cost right now per transaction. But there's more transactions. That's a robust answer.

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, we updated how much we spent in the course of 2012 on slide 92. So the fees were GBP850 million, that's what we charged US and we spent that. Just the sheer size of the growth in the book will mean that we will collect around GBP1 billion of fees next year in 2013, sorry, this year in 2013. If hedging is cheaper we will just hedge further into the tail.

A - Tidjane Thiam {BIO 7518525 <GO>}

And then the long-term metrics and the difference between cash and dividend growth, I think your observation is correct; nothing grows more slowly than the dividend. And I think that is a position we like; we think it's where it should be, because the difference between the two you do a number of things.

First of all we're a little pleased with the growth numbers of the Group. So the balance sheet gets bigger. So you need to retain also some of that cash and capital and earnings for a bigger company. That's just a feature of growing at 20% in a number of places. So that's one thing.

Two, we are still -- there is still a lot of uncertainty out there; my own view is relatively cautious. I've said many times that we've have zero default this year; we had zero default the previous year; from memory we had GBP12 million of default the year before that on a GBP27 billion annuity book (inaudible).

I don't believe that we'll get out of this cycle without a credit event. I just don't; that's my personal skepticism.

So I think having a strong capital base is sensible. That's why we are holding onto the credit reserve on the annuity book and won't touch it. We've seen the downgrades; we've seen all that. We know that the economy is supported by the current level of interest rates. And we know that a number of companies and households will really be under strain if and when there is any growth normalization of interest rate environment.

So some clouds are there. In Europe, we're at the mercy of any election, interesting results from election to election, the economic programs. I heard yesterday that Mr. Hollande has given up on the 3%; he's announced officially that he won't reach it.

So there is still uncertainty there. So I think it's sensible to be prudent in that environment; that's the second thing that that cash is going to do.

The third thing is investment opportunities. We did Standard Chartered; we did REALIC. You've seen the economics of those deals; we think they are very attractive. We think they make sense. And we don't think we should be in a position, as Nic just said, where we cannot do such transactions.

And the fourth thing is that we owe it to our shareholders to give them back anything we cannot put to a good use. And that's really how the Board looks at it.

Now the complexity in that is people tend to look at one metric like dividend cover. And that's the only one of the things we look at. We look at IGD; we look at our own version of economic capital; we look at S&P rating agency capital; we look at cash cover; we look at free surplus. And before you can actually do something with the dividend, you have to make sure that you pass all those hurdles.

And when you stress test your dividend, under severe shock, that you can continue to pay it and you can continue to grow it. We have been looking. But I believe this is correct, this Company has cut its dividend twice in 1914 and in 2003; that's in 165 years of history.

So culturally, we did something we don't like to do. The track record in this industry of which we are proud, two times in 165 years. And we intend to keep it that way.

So we are very, very, very, very cautious on the dividend. We want to give back as much as we can. But we want to be able to grow the dividend safely. I can't help it, because sometimes I read the newspaper and I see relative charts of dividend growth, I think they're irrelevant.

The only thing that matters is the absolute level. And I was chastised by a shareholder once because I was quite pleased with the dividend growth. And he just reminded me that we were still below the '03 level. We've now crossed that; I think we're quite happy that we for our shareholders have come back in absolute terms above that. And we intend to continue to grow it.

To raise your dividend by 20% once you've cut it is not great. For us, it's steady as you go, grow it by 5% year in year out.

The dividend today is 62% above the pre crisis level. So we think that's a good way to reward the shareholders. It has to be safe; it has to be consistent. So it's a long answer. But it's something really important to us.

Q - Greig Paterson

Great. The tension was building up within my body, . Anyway like -- I'm also interested in bancassurance by the way; I find it very interesting. I have a request and two questions. One is, you used to provide on your balance sheet, it was in the other intangibles line, the cost of your bancassurance that you'd capitalized and then I could track the amortization, etc., of that. You've stopped that disclosure now; I wonder if you could consider putting it back in your balance sheet so I can keep track of how much you're spending to run your bancassurance business?

And in terms of questions, one is slide 15; you've given the increase in active agents and the APE per agents. But only for the sweet spot markets. I wonder if you could give those two statistics for your total Asian agency force so we can see how much the sweet spot is balancing, potentially, any reductions elsewhere, or maybe gains elsewhere, I don't know?

And the second question is just in terms of Thanachart. I just wondered if you could explain where we are; have we come online yet? What month is it coming on? And also, just an update, I know it's a little bit premature. But will it have an impact in terms of margins? Is it going to boost margins or reduce margins? Again, just where we are, what you know now versus last time.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, thank you, Greig. On the other intangibles, the cost of the bancassurance deals, are we -- ?

A - Nic Nicandrou {BIO 15589153 <GO>}

I think we can help you. The information is there; we just need to help you get there. But let me reiterate the point that I always do when you ask these questions. The upfront PECs that we pay are fully amortized, in line with the profile of the business that we will write.

I want to take the opportunity to reiterate that all our metrics that we've reported today, be it IRRs, NBP. So on and so forth, are fully loaded for an appropriate amortization of those upfront costs. And we will help you with the disclosures.

Q - Unidentified Participant

(inaudible).

A - Nic Nicandrou {BIO 15589153 <GO>}

Believe me, it's appropriate.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes. But it's important to note that it's amortized. So we're not overstating anything and we can show you where it is. And then we can discuss whether the methodology is correct or not.

Active agents and sweet spot, this is also an old debate between us. But how can I say this? We believe we've given you the information where it's relevant. But if you want more detail, we're happy to provide it.

A - Barry Stowe {BIO 15021253 <GO>}

Were you referring to the 34% active increase?

A - Tidjane Thiam {BIO 7518525 <GO>}

No, it was 19% increase, NBP going from EUR100 million to EUR119 million.

Q - Unidentified Participant

(inaudible)

A - Barry Stowe {BIO 15021253 <GO>}

Yes, let me tell you a more important measure. We've talked about, as recently as half-year and I think in New York and every other time we get together, about how blunt that APE per active is. It's not a great measure; we've used it historically because to go much further, it gets complicated.

But what we've started looking at, more recently in more detail, is using NBP which is a far better measure. And for six years, we've been talking about NBP as our principal sales metric. So we're trying to measure the economic impact of active agents by using some of those metrics.

On that basis, the activity rates, if you will, look very strong. The NBP produced per agent materially outperformed the APE produced per agent. The margin for our active agents increased 8 basis points last year. And that's across the region, that's not just sweet spots.

A - Tidjane Thiam {BIO 7518525 <GO>}

But the sweet spots are -- I'm just trying to do a quick calculation, it's only 19% of our agency force, because one of the outside measure of Korea --

A - Barry Stowe {BIO 15021253 <GO>}

Well, India's big (multiple speakers)

A - Tidjane Thiam {BIO 7518525 <GO>}

No, take India out.

A - Barry Stowe {BIO 15021253 <GO>}

Take India out.

A - Tidjane Thiam {BIO 7518525 <GO>}

India is 220,000. If you take India out, we've given you --

A - Barry Stowe {BIO 15021253 <GO>}

Overwhelmingly a sweet spot.

A - Tidjane Thiam {BIO 7518525 <GO>}

Where it's relevant, because you're left with China, Korea and Taiwan.

A - Barry Stowe {BIO 15021253 <GO>}

There's nothing in Taiwan.

A - Tidjane Thiam {BIO 7518525 <GO>}

Japan, which is closed and there's nothing.

A - Barry Stowe {BIO 15021253 <GO>}

There's nothing in Taiwan. There's no agents in Taiwan.

A - Tidjane Thiam {BIO 7518525 <GO>}

Taiwan is all bancassurance. No, seriously. Taiwan is all bancassurance and Korea is a few -- how many agents do we have now in Korea?

A - Barry Stowe {BIO 15021253 <GO>}

Korea is basically 1,000 active agents there and you've got --

A - Tidjane Thiam {BIO 7518525 <GO>}

So nothing. So with this, you've got the substance. So it's not just a gimmick; it's really the reality of the agency force in Asia that we're giving you. But we can give you -- but another thing you're asking for about Korea. And we're happy to provide if that helps.

Thanachart, when is it online?

A - Barry Stowe {BIO 15021253 <GO>}

So I can't tell you exactly when it comes online, because what we're waiting for now, really the only thing we're waiting for is regulatory approval. And it would be presumptuous of me to suggest when the Thai regulator will approve it. But we do have every expectation that it will be considered during the course of this month.

So hopefully, the deal would then close sometime early in the Second Quarter. And there's an enormous amount of work going on. The working groups from both side are meeting literally daily in Bangkok in order to ensure that we get a very fast start, just as we did with UOB, notably in Thailand, where we were into every branch within --

A - Tidjane Thiam {BIO 7518525 <GO>}

Six weeks?

A - Barry Stowe {BIO 15021253 <GO>}

Within 30 days effectively, had sold a product. So this is 800 branches; it's a little more complicated. But we expect to have very good coverage across the branches very soon after the deal closes. So you can expect a strong performance there.

We met literally as recently as last week in Bangkok, I was there. And all the work is going very well. In terms of what the impact Thanachart will have in terms of margins; again, we have to be careful here because we're talking about results that are really going to be Second Quarter results. But I would remind you of some of the things we said around the Thanachart deal, one of which was that this is one deal where there's been quite a good amount of protection already sold through the previous company, through the bank. So this is not, by any stretch of the imagination, a bad margin story; we think this is quite a good margin story.

Q - Colin Simpson {BIO 15894636 <GO>}

Colin Simpson, Goldman Sachs. Your free surplus, I think, was held back by a repayment of contingent capital. Could you just remind us the future drag on that from, I think, the financing agreement?

Second question was, the Oliver Wyman data actually shows asset management to be a huge beneficiary when you move from GDP per capita of up to $2,000 to $2,000 to $15,000, why does it feel like Eastspring is underperforming, given your profit growth. And then maybe some of the thirds parties coming from Taiwan and whatever?

And the third question actually, when you look at your IFRS sensitivities for your US business, it almost feels like we should be hoping for interest rate declines and equity market falls to make the profit go up, which is obviously not the case. Any chance of getting some sort of metrics that we can work with to show maybe economic value moves? I know it's a question we've probably had 100 times.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thanks, Colin. Yes, reimbursement of contingent capital and free surplus?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes. We have two types of contingent arrangements. There are those that are external, which we tapped in 2009. We flagged this time last year that we expect to repay GBP145 million of that back, which was the last remaining element. We paid GBP130 million. So there's just a little more to come through.

Additionally, there's some internal ones which are historic; they've been there for some time. All but an GBP80 million chunk has been repaid by the end of 2012. So that just gives you a sense there's a little more to come. But it's of the order of GBP100-or-so-million.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Well, asset management, I agree with you that it's a big opportunity in banks. Eastspring, do you want to say a few words? It's a distribution issue also though I think.

A - Barry Stowe {BIO 15021253 <GO>}

Sure, absolutely. The fact is that remember, we're doing business effectively in the onshore markets, the domestic markets across 11 markets in Asia. And when you look at the industry statistics for those markets, in fact, we're not underperforming, we're outperforming the industry.

We've moved from the number two retail asset manager in the region to number one over the last year. And we've got record breaking assets under management. So it's actually, in the context of the environment in which we do business in Asia, it's a very good story.

Here's the bad news. The bad news is that while we've seen terrific equity market gains, certainly in North America. And you've seen some robust results here as well, you've seen a lot of flows in this part of the world, reality is the Asian retail market has been an outflow since December 2007. It has still not recovered from the crisis.

So in that context, we've actually -- the fact that we're growing as we have, we've done quite well. Our investment performance is good, given that most of our funds are focused on Asian equities and, again, you've not had the strong performance in Asian markets that you have in the rest of the world.

In the context of the market, our performance is good; over 60%, about two-thirds of our funds are either at benchmark or in the upper quartile. We've done particularly well in the last year on fixed income, on some bond funds, which is handy because that's been what the consumer appetite's been for in the last year. And that's why you see the fund at $58 billion.

The downside of that, obviously, is that the fees we earn from managing that fixed income are not as lucrative as for equity.

As Tidjane said, we're extremely well positioned. The branding exercise that we've done has gone really well. So we now have much more of a global presence than we did 12 months ago. That's already borne some fruit. And then we've gotten both from Europe and, more importantly, from the Americas, we've seen institutional flows coming in.

So I'm very optimistic and you should be very optimistic about the prospects for Eastspring. But, when you look at the retail market in Asia, we are in a pretty tough environment.

A - Tidjane Thiam {BIO 7518525 <GO>}

And it's like many things we do. You have to look at it in the long term. And I'm looking at Michael here who may be able to help us. But if you got what M&G did in Continental Europe, I must say personally I was actually quite skeptical. And for a long time it had me think, when is this going to materialize? The flows are too slow. It takes a long time.

Michael, I don't know if you want to say a word about that GBP5.2 billion this year. It took you a while to get there.

A - Michael McLintock {BIO 1524907 <GO>}

Yes, it's taken 11 years.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes. You have to look at it on the right time horizon. It doesn't happen overnight. And it's a long slog what we're saying. So totally confident it won't happen. Don't hold us on the year or two, because it's not visible on that scale of time.

Third question was something you could work with. And I wanted to say a few words about economic capital, because it's so linked to the IGD discussion. It's probably, historically, one of the most uncomfortable areas for me; it has me under pressure on this many times. But we are all waiting for Solvency II, hoping that it would land in a reasonable space.

Do we have an economic way of linking up capital internally? Yes. We use it for decision making. And, thanks to Solvency II in a way, we have invested a lot in our internal models, etc., etc. And we think now we are getting to a point where we can design an answer that will be ready to present to you and give you some visibility on how we look at economic capital. And I expect that to be an interesting dialog.

So Nic and his teams are -- I'm glad you're smiling, Nic -- Nic and his team are working day and night so that we can give you more and more visibility on that. But can comment probably, Nic. Do you want to add --?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, as I said, we wanted to give you a number at the same time as Solvency II. Now with the delay, we've been building the models; we want to get them to the right quality. Tidjane and I are aligned; we only like to put out information in the market that is robust.

We need to continue to invest a little more to give the reliability that I'm looking for. And, in the course of the next year or so, we will be in a position to give you what others are already giving you.

And, again, from my perspective, that is only one of a basket of metrics that we look at. There's nothing -- I wish our industry was so simple as to have one thing and say, judge us by one thing. It's not.

Economic capital is relevant. Local capital is relevant obviously in the US, because that's what we use. New business -- we make decisions balancing the tradeoffs between a whole host of things. But yes, we provide the economic capital information.

A - Tidjane Thiam {BIO 7518525 <GO>}

We really believe that most companies that have got in trouble in our industry, historically, have got in trouble because they only looked at one or two metrics. There are many, many dangerous strategies if you only focus on one.

So I know it's sometimes frustrating for you because we give you complicated answers. But really, in most situations, you cannot just look at one thing, because of the time horizon of course.

Look at statutory, historic statutory, because, in the end, you need to assume cash, you need to assume dividend. Your local statutory position is very, very important. Look at IGD, look at economic capital and our understanding of it, which is not the Solvency II understanding of it. You look at cash flow, you look at free surplus; you've got all those things every time you make a decision. So it's never going to be one metric that explains everything we do.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken, RBC. A couple of questions. First one, last year you talked about launching into some new geographies. You talked about Brazil and Poland and Italy. Just wondering where you are with these and what the long-term potential you see.

And secondly, in this UK credit default provision, given how the credit environment has improved since that was set up. And we also saw Aegon a few weeks ago release some of its UK provisions, if it is over-reserving, the regulator's going to be keen on that. But the tax authorities less so.

Can you just talk about how your discussions with the various authorities are going on that? And what scenario would cause you to actually start releasing that provision?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, very good. Brazil, Poland; do you want to say a word on both (multiple speakers)?

A - Rob Devey {BIO 5103083 <GO>}

Yes, sure. Let's start with Poland, which has been a welcome. We opened a branch of PAC in Poland on February 25, which we're delighted about. Poland is very attractive, from all of the metrics that we look at in terms of its demographics, its insurance penetration, the lack of a robust social safety net, etc.

So in that market, we're really bringing together the key attributes that we have as a Group. So we're bringing together the with-profits fund, which happens to have a lot of attractive attributes for the market, not least the 19% tax advantage for the investors, with some of our skills from Asia.

And it so happens our Chief Exec in Poland actually is one of the stars out of Barry's team. And we're bringing together some of the riders, for instance. And product propositions out of Asia. So we're delighted about that.

But it's small. And we're growing it. And we're growing it organically. And that's something that we fundamentally believe in as well. So don't expect any impact on the results while you guys are all around and probably while we're around. It's something we're building for the next 20 years, not the next three years.

Brazil, other markets, Barry and I between us, we've been looking at a whole host of markets globally. We've had conversations. And conversations continue. But, again, we've got to find something which builds on our strengths and which we can do broadly organically. Just planting a flag, get to rise with the rising tide. That's not of interest to us.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I can just emphasize one thing. We are not doing this because we are worried about growth in Asia. We are not worried about growth in Asia. We're doing this because we think it's valuable.

Poland is interesting. We're conducting a little experiment, which is really, can we export our Asian model? That's what Rob explained. It's very interesting to do that, to see who is from Asia. The products are from Asia. And it's a question we would like to know the answer. Certainly today it has many other applications around the world. And so far indications have been --

A - Rob Devey {BIO 5103083 <GO>}

The indications are great. And it's worth also saying that he's the one Asian -- there are no UK people there. And the other 90 people who work in our Polish operation have been attracted from the Polish market. Some fantastic people have joined us because we're trying to do something a bit different and they want to be a part of it.

A - Tidjane Thiam {BIO 7518525 <GO>}

And, to be clear again, it's not a procure Central European strategy. When I say the applications elsewhere, it's not in Europe, to avoid any misunderstanding. The credit default result?

A - Nic Nicandrou {BIO 15589153 <GO>}

I'm going to disappoint you, Gordon. I think this is not a number that we dial up or down on an active basis. When it comes to this, we will adopt the same philosophy that we adopt elsewhere. We will move it when we have certainty. Certainty by reference to what the markets are doing, Tidjane has already commented on that. And certainty when it comes to regulatory developments and evolution about capital. At that point, then we will revisit that particular topic.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. Three questions, if I could? The first one's on capital; I know we've talked a lot about capital already. But there are two things I'm a bit confused about.

The first one is the Pillar 2 position. So I wasn't sure whether this FSA agreement regarding the US also meant that the similar capital surplus was shown under Pillar 2.

And then a similar related question on the G-SIFI status. So I think in the US you said you expect it to be G-SIFI. And we know now that I think variable annuities are in non-traditional insurance. So therefore, there's a whole new debate about the level of capital needed to set behind variable annuities. Could you talk a bit about that, please?

The other two are probably a little bit easier. Well, I'll just make one, actually. You talk quite positively about Hong Kong agency in your presentation, yet when I look at the bancassurance growth and see that 50% of it is related to Hong Kong, it seems to suggest that Hong Kong agency hasn't grown at all over the year, 50% of it being bancassurance and bancassurance being up 40% and Hong Kong as a whole being up 20%. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, all right. Thanks, Andy. Capital, Nic, do you want to take that?

A - Nic Nicandrou {BIO 15589153 <GO>}

Well, Pillar 2, our discussions with the FSA on Pillar 2 are focused on the UK. So I don't have anything to add to that particular answer. Pillar 2 will come, as regulation evolves. It would have been here a year from now; that's obviously still to come in; therefore, I don't have an answer to the question that you have beyond our discussions in the UK.

A - Tidjane Thiam {BIO 7518525 <GO>}

And, as I said, we are putting warranty in there. So far regulator's position has been not very comfortable with having RBC-based conversations with us on the US; that's what we've been having.

G-SIFI, you know the Geneva Association has taken a position, has published a study by Oliver Wyman on that, where we say that we're not a systemic risk. But size is not the right criterion to look at this.

We are part of a dialog and a process and the meetings and phone calls, etc. And at some point I think, during 2013, a list will be published. But our understanding is that, anyway, there wouldn't be any capital implication until 2019. That's the date we've been given. So we will have time to come back to this. It's not a pressing issue.

Hong Kong agency?

A - Barry Stowe {BIO 15021253 <GO>}

The Hong Kong agency actually had a great year last year. And so did SCB; there's no doubt about it. But for years, we've been in a situation where the Hong Kong business is basically -- it will move 1% or 2%. But it's 50% agency and 50% bank. And it continues at that pace.

The market -- our business in Hong Kong grew 20% last year at top line. And the ratio did not change materially. So they had relatively equal growth rates. Bank will have performed a little bit better. But not materially better.

But, by any other metric, we had, setting aside the economic changes which happened because of low interest rates which hit Hong Kong, the NBP generated by agents was great. We had a great recruitment year, I think Tidjane touched on.

We had 20% growth in the number of agents that are qualified for MDRT to the extent that you view that as the metric, I think, that's a blunt metric. But it is what it is. So it was a very strong growth rate. We had a great year.

A - Tidjane Thiam {BIO 7518525 <GO>}

It was a very good year. If you remember that growth chart, you had Hong Kong and Singapore at the top in GDP per capita. And it's very simple. Hong Kong, this was a mainland business, mainland business is an enormous addition to the growth there. Everybody benefits from it. That's big business for us. And Singapore is just really, particularly the Indonesians, the rich Indonesians. And the rich people from all -- it's the Switzerland of Asia.

A - Barry Stowe {BIO 15021253 <GO>}

And Indians and some mainland Chinese as well.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes, mainland Chinese as well; you see them there. We benefit from that a lot in the high net worth segment. So both markets still show a very good growth, although they are high in GDP per capita.

Well, we're well into the afternoon so I think we're going to stop here. We're happy to answer more questions, if and when you have them. You know where to find us. But thank you for your patience and have a good rest of the day. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, you may now disconnect.