

## Asian Insurance Market Targeted by Prudential

AIG, which received an \$85bn Federal Reserve loan during the financial crisis, is expected to sell off its Asian arm (AIA) to Prudential - the UK's largest insurer - in a deal totalling \$35.5bn (£23.5bn). In a growing trend where businesses are aligning their growth strategies towards the East, Prudential will become the dominant foreign insurance giant in the Asia region should the deal pull through - a third of its global sales are generated from Asia.

Over the weekend, AIG's chief executive, Robert Benmosche, had abandoned a planned \$10-\$20bn listing of AIA on the Hong Kong stock exchange

instead opting for the AIA acquisition. Included in the terms of the acquisition, AIG is expected to receive \$25bn in cash, \$5.5bn in stock, \$3bn in mandatory convertible notes and \$2bn in preferred stock. It is unlikely that there will be a counter bid by rivals.

Prudential is looking to raise an estimated \$20bn to help fund the bid. Its planned share offering that is structured as a rights issue has been underwritten by Credit Suisse, HSBC and JP Morgan Cazenove. They are acting as joint global coordinators and book runners. On Friday, Prudential announced that the Singapore sovereign wealth fund GIC and

Qatar Holding LLC had also committed to underwriting a significant portion of its planned \$20 billion rights issue that will help fund the AIA deal.

Sources working closely on the deal have said that Prudential may exit some Asian markets such as Australia, New Zealand, South Korea and Taiwan due to low market share. It is believed asset sales could reach \$1bn. Tidjane Thiam, Prudential's chief executive, is currently on a three day tour of AIA's office to reassure staff over their job loss concerns and to secure support for the deal.

Alex Tang



Prudential expected to buy AIG's Asian arm (AIA.)

### Markets

By midday on Friday, the European indexes were moving upwards with the FTSE100 up 33.45 at 5559, the CAC40 up 26.76 at 3,855 and the DAX Index up 23.27 at 5,819.

US markets closed strongly on Thursday with the NASDAQ up 0.51%, while the DJIA rose 0.46% and the S&P 500 gained 0.37%.

In Asia, Friday the indexes closed up at the end of the day's trading, with the Hang Seng leading the advance, up by 1.03%.

### Winners & Losers

Company	Price	Change
Schroders	1,377.00p	+5.11%
Schroders NVTG	1,143.00p	+4.00%
XSTRATA	1,164.00p	+3.51%
Standard Chartered	1,756.50p	+3.29%
Drax Group	370.40p	-2.71%
Petrofac	1,056.99p	-2.67%
United Utilities GR	551.00p	-1.69%
Centrica	279.86p	-1.53%

## Dispelled Fears Lift Capital Markets

Folarin Araromi

Bond and equity markets closed on cheerier note yesterday, spurred on by lower than expected US unemployment figures, and Greece's largest bond issue in a long while. The issue, €5bn (£4.5bn) in 10-year bonds, was evidence of renewed confidence in the markets and the Greek government's ability to meet its debt repayments. Only a few weeks ago it would have struggled to raise any money in the markets.

However, the interest rate Greece has been forced to pay to attract investors, 6.25%, is the highest it has paid for a 10-year bond since it joined the Euro in 2001. The interest rate is over double the rate Germany is paying (the strongest EU economy). German officials made it clear they saw the issue as confirmation that Greece could win back investor confidence without Euro zone aid. However, currency strategists said such punitive rates were not sustainable. Nonetheless, investors are likely to remain


wary as Greece will soon have to raise more money in the capital markets. It needs €10bn to refinance debt and meet interest payments in April.

Across the pond, US stocks ended higher, helped by better-than-expected initial jobless claims and productivity figures, boosting investor sentiment. The number of US workers filing new applications for unemployment benefits fell last week to 469,000 against expectations of 475,000. US productivity was stronger in the fourth quarter than analysts expected, rising 6.9% on an annualised basis. The S&P 500 ended 0.4% higher at 1,122.97, the Dow Jones Industrial Average was up 0.5% to 10,444.14 and the Nasdaq was 0.5 per cent higher at 2,292.31. Before the opening bell a number of US retailers announced their February same-store sales data. The results were largely better than expected suggesting that consumer spending may be recovering.

## Company Profile

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Name: Prudential (PRU.L)

Share price: 513.00 p  13.00 (2.60%)

Background: This group is one of the greatest specialists in life insurance and financial services (property and car loans) in Great Britain. It sells products over the Internet and by telephone. Its subsidiary, Egg, handles the on-line side of the business, while a network of call centers enables it to meet the needs of its customers across the whole world. The group is well-established in three continents: in Asia, in Europe and in the United States, where it ranks amongst the ten leading insurance companies through Jackson National Life, its American subsidiary.

As of 2007, Prudential sold its online banking service Egg to Citigroup. It is currently traded on the London and New York stock exchanges.

The company has four business units:

**Prudential UK:** the business offers pensions, annuities, savings and investments (bonds, ISAs). They are particularly well-known for the sale of with-profit bonds and pensions, corporate pension schemes, bulk annuities and individual annuities. The company left the general insurance (household, car) market in 2002, licensing Churchill Insurance (now part of the Royal Bank of Scotland group) to use the Prudential name.

**M&G:** the business offers investment management services including retail fund management, institutional fixed income, pooled life, pension funds, property and private finance.

**Prudential Corporation Asia:** the business is the largest life assurer in Asia.

**Jackson National Life:** the business was purchased in 1986. It was named after Andrew Jackson, the seventh President of the United States of America.

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## Positive Earnings Announced by several institutions. Jordan Hinze

HSBC have reported a 24% drop in their pre tax profits of 2009 due to large amount of write downs that the bank faced. However taking these one-off factors out of the equation, the profits of the bank have actually increased by 56% to £8.8bn. HSBC is one of the banks that has not received any state funding. "Throughout the crisis, HSBC has remained profitable, financially strong and independent of their shareholders" states Chairman Stephen Green. Meanwhile the bank's chief executive, Michael Geoghegan will give up his £4m bonus to charity.

The earnings of Aviva follow those of HSBC. The global insurer posted a 3% increase in 2009 profit. Its operating profit was up £3.48bn from £3.37bn. The news comes to light as Aviva focuses its strategies on its main market-Europe. It aims to grow its life and

pensions book whilst seeking to cut costs. Whilst pinning its hopes on Europe, Prudential has completed a successful takeover of AIA, the Asian arm of American insurer AIG. Prudential reported a £1.7bn pre tax profit yesterday.

More positive news came out today as Standard Chartered also posted very solid results of £3.4bn. The 13% increase can be credited to the strong recovery of the African and Asian markets, core markets of Standard chartered. This is the seventh successive year of record profits and earnings of the bank.

It would seem that some kind of recovery of the financial markets is indeed on the go albeit very slowly. However it may be too early to celebrate as the earnings of other financial institutions have yet to be released.

## Strictly Bites Bradley Wright

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The Treasury's 'Super Tax' has resulted in a £2.5bn windfall for the UK Treasury. The bonus tax, launched by Alistair Darling, has resulted in extra tax revenue on bankers bonuses of over a billion pounds.

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UK producer prices have risen by more than 4% in the 14 months to February. Prices of goods leaving factory gates doubled their average rate over the past decade according to official figures.

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Sovereign Wealth Fund's of Qatar and Singapore have joined more than 30 global banking institutions in underwriting Pru's \$20bn rights issue.

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Manchester United, the UK football club is considering ending ties with Goldman Sachs after Goldman's chief

economist Jim O'Neill spearheaded a consortium of supporters trying to overthrow the current ownership.

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Vikram Pandit, CEO at Citigroup, blamed short selling, rather than self-inflicted weaknesses, for the bank's near-collapse in 2008 and continued to thank taxpayers for its government bailout.

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Oil prices rose whilst base metals made modest gains as commodity markets traded cautiously ahead of vital US employment data for February. Nymex April WTI rose 49 cents to \$80.70 a barrel while ICE April Brent added 58 cents to \$79.12 a barrel.

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Greece is prepared to turn to the International Monetary Fund for financial assistance if its European neighbours fail too. This comes after it announcing the toughest spending cuts in decades.

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