Prudential US Business: Reinsurance Transaction and Anchor Equity Investment

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Prudential US Business: Reinsurance Transaction and Anchor Equity Investment

Mike Wells

Group Chief Executive, Prudential plc

Welcome

Welcome to all of you. Thank you for joining us on such short notice. I am Mike Wells, I am Group Chief Executive of Prudential. With me today is our Group CFO and COO, Mark FitzPatrick and the CEO of our US businesses, Michael Falcon. We will run you through the short presentation which we posted on our website and then we will be happy to take questions after, as always. We are really pleased to make this important announcement which significantly improves our strategic flexibility in respect to the US.

This morning we signed a $28 billion reinsurance deal with Athene and they have agreed to invest $500 million for an 11% interest in our US business. Athene is one of the US industry's leading players and is listed in the United States with a market cap of $6 billion. The agreement increases our strategic flexibility as we continue with the next steps of the development of our US business. Our comments today are necessarily restricted by the regulatory constraints. This presentation and the Q&A will be limited to the transactions and what we are announcing today.

US business: reinsurance transaction and anchor equity investment

Summary

To put today's announcement in context, let me remind you of our strategic priorities. These can be summed up in two simple points. First, to enable you, our investors, to benefit to the fullest extent possible from the opportunities presented by our Asia business, and second, to pursue a path for an independent Jackson while ensuring that through the strengthening of standalone capital position it retains the strong credit rating that its customers require, and also that it can diversify its business over the long-term.

We have made a number of important announcements over the last year related to our US business. At the half-year 2019 results we announced the intention to introduce third party financing into Jackson, and then at our full-year 2019 results in March of this year, we stated a preference for public equity markets as a source of that third party capital through a minority initial public offering and subject to market conditions.

The two key elements of today's transaction are these. First, Jackson will reinsure substantially all of its in-force fixed annuity and fixed index annuity liabilities to Athene. Secondly, Athene is investing $500 million in our US business in return for 11.1% economic share. Importantly, the reinsurance transaction is already completed, and the equity investment is expected to be done by the end of July. The time and the future of these transactions are important to us. We have been focused on certainty of execution as we evaluate various options.

Key benefits

These transactions have important benefits for Jackson, and Prudential: Taken together they increase Jackson's estimated RBC cover ratio by about 80 percentage points resulting in a 420-445% cover ratio on a pro-forma basis and this is based on its end-of-March position.

The reinsurance transaction substantially reduces Jackson's and the Group's total US credit exposure at a time of considerable valuation uncertainty and clearly volatility. It also highlights the potential for a private market financing partner in the future to diversify the business. We continue with preparations for our minority IPO alongside the active evaluation of other options. We are very focused on delivering on our strategic priorities. Today's announcement is a significant part of that.

Opportunities for the US Business in the Future

Michael Falcon

CEO, Jackson

Jackson: a leading provider of US retirement income solutions

Good morning to everybody. I am on page four of the slides. I am very excited about today's news and I am pleased that Jackson can continue to move forward in developing our business through an increase in our capitalisation and have attracted the investment of such a highly-respected industry player as Athene. Let me describe how I look at the future for Jackson briefly here. Jackson continues to have substantial opportunity for profitable growth providing protected income and value solutions to the large and growing population of Americans transitioning into and living in retirement. We are a leading provider in the individual annuity space with proven capabilities across variable, fixed and fixed index products and with distribution partnerships with the leading advisors, firms and platforms in the space.

Jackson has a long record of pricing discipline, effective risk management and product innovation. These attributes demonstrate our resilience historically through shocks and cycles, and most recently through the challenging environment we experienced in the first quarter of this year. We also benefit from our highly efficient single stack operating platform and IT systems which contribute to our industry-leading efficiency ratios. Jackson also has a strong and disciplined record of sourcing and integrating value added bolt-on acquisitions. In that regard, we expect to continue to explore inorganic opportunities over time while maintaining our primary focus on growing our product and distribution capabilities organically.

US business: reinsurance transaction

US statutory

This slide provides a summary of the reinsurance transaction between Jackson and Athene that we have announced this morning. The reinsurance agreement is effective at 1st June 2020 and will be recorded in the first half financial statements. I will speak briefly as to both the statutory and IFRS implications, as while the mechanics are similar there are some distinctions. I think it is easier to consider the impact from a US statutory capital perspective first and then from the IFRS view. Starting with the statutory view, Jackson will see the bulk of its in-force fixed annuity and fixed index annuity liabilities to Athene. That is approximately $27 billion in statutory terms. Backing assets will then be transferred to Athene on a statutory or at-cost valuation basis. Jackson benefits from a ceding commission being the difference between the two. The net effect of the reinsurance transaction is to increase Jackson's RBC position based on 31st March 2020 valuations by about 60 of the total 80 basis points increase in the RBC position. Mark will cover this in more detail shortly.

IFRS

From an IFRS perspective the value of these same liabilities transferred, similar to the statutory basis, is about $27.6 billion. The assets transferred are recognised largely on a market value basis as required under IFRS principles and are about $28.2 billion, mostly corporate bonds and US treasuries. In preparation for this transaction we have been able to rebalance our remaining portfolio accordingly, in line with our historical risk and liquidity profile. As part of this rebalancing we have added to replace levels of US treasuries which provide liquidity and an economic interest rate hedge. Our fixed maturity exposures are back to the pre-transaction asset and quality mix. We expect to continue to manage these general accounts assets with a conservative approach to investment risk consistent with our prior practice.

US business: anchor equity investment

Speaking briefly to Athene's investment in our US business, subject to regulatory approval Athene will invest $500 million into Jackson in return for an 11.1% economic interest. This will be done through a new issue of equity in the US business. The issued shares will carry 9.9% voting rights. As Mike said earlier, this is in line with our strategy to bring third party capital to support further development of Jackson's business. The new equity invested will be deployed within Jackson. We expect the equity investment transaction to complete in July with the reinsurance transaction having already closed upon signing. We see this anchor equity investment representing a long-term commitment to Jackson and its development.

Capital and Financial Accounting Implications of the Transactions

Mark FitzPatrick

Group CFO and COO, Prudential plc

~80% point increase in Jackson's RBC capital cover ratio

Good morning to everyone. If we move to slide seven you will see that these transactions lead to substantial improvements in Jackson's regulatory capital position. When applied to the midpoint of the RBC position we indicated at 31st March of 340-365%, the two transactions contribute to an increase of around 80 RBC points. Around 60 RBC points of the increase reflect the net impact of the reinsurance transaction. The reinsurance benefits us in two ways. First, from the receipt of the reinsurance commission that Michael mentioned and second, from the reduced capital charges in respect of the risks associated with assets and liabilities transferred. This is offset to a degree by some reserve writebacks and the loss of some covariance benefit. The balance, of around 20 RBC points reflects the deployment of the new capital invested into Jackson. We expect the impact on hedge costs to be neutral with the effect of the increase in capital matching always exceeding the loss of diversification benefit. I would remind you that this capital position reflects the benefit of $250 million of leverage represented by Jackson's surplus note. The US peer group leverage is significantly higher than that in the Jackson capital stack at present.

Prudential plc: pro-forma financial efforts (IFRS)

This slide looks at some of the key pro-forma accounting implications of the transactions. As a reminder, all balance sheet values are at 31st March 2020. Starting with the impact of the reinsurance transaction on our IFRS accounts, there are two key components. On a pro-forma basis, it would lead to a pre-tax IFRS profit of around $1.2 billion. After allowing for tax and the reduction in unrealised gains recorded directly in OCI on a pro-forma basis it would lead to around a $0.7 billion reduction in IFRS shareholders equity.

Moving now to the IFRS effects of the equity investment, there were also two components to this. Firstly, at a US level equity increases by the value of the investment, so $500 million. Secondly, at a Group level there is an additional component as common shareholders' equity is reduced to reflect the transfer of Athene's 11.1% holding to non-controlling interests. The overall impact of the investment therefore is to reduce Group IFRS equity by approximately $0.7 billion. The investment is expected to complete in July 2020 and the financial effects will correspondingly be updated using asset and liability values at the completion date.

Taken together the reinsurance and equity investment lead to a total reduction in IFRS shareholders funds of $1.4 billion. It is worth noting that IFRS equity for the US business at the date of the reinsurance transaction is above the 2019 year-end level of $8.9 billion due to net earnings since the year-end.

In terms of operating capital generation, the impact of the reinsurance transaction is similar to that in IFRS in that we expect a small reduction in OFSG going forward. Post these transactions Prudential would receive an 88.9% and Athene an 11.1% share of any distributions or dividends from the US business. We will look at the effects of these transactions in the round as we consider our overall remittance plan for 2020 and we will come back to you with an update of the financial effects and associated developments at the half-year results.

Higher capital, lower credit exposure

Slide nine shows that these transactions have a number of important benefits to both the US business and the Group. In addition to the increase in Jackson's capital position by the 80 RBC points, there is also an increase to the Group's shareholder LCSM ratio by 27 percentage points on a pro-forma basis from the 302% we indicated at the end of March. LCSM is calculated on a net basis and so excludes the new non-consolidated interest represented by the Athene investment. The reinsurance transaction materially reduces the Group's aggregate credit exposure involving the transfer of some $28 billion of Jackson's assets, mostly bonds, as well as the reduction in the exposure to some of the interest rate risk embedded in the FA and FIA contracts.

Closing Remarks

Mike Wells

Group Chief Executive, Prudential plc

US business: reinsurance transaction and anchor equity investment

To sum up, these transactions are an important next step in supporting both Jackson's development and the Group's strategic flexibility. As you recall, in 2008 we executed a similar enabling transaction in the lead-up to the execution of our demerger of our UK and European businesses, M&G Prudential. In particular, that delivered an 80-point lift in Jackson's statutory RBC capital cover and with the transactions we announced today, Jackson maintains its market-leading annuity capabilities. We see the anchor equity investment in Jackson as representing a long-term commitment to the business and its development and meanwhile, as we previously stated, preparations for a minority IPO continue alongside the evaluation of other options.

As you have seen, when we act, we seek to act with certainty and today we are taking an important step in the delivery of the Group's strategy. As you know, we will provide a further update at our 2020 half-year results on 11th August.

Our comments today again are necessarily restricted by the various regulatory overlays and so I would ask that the questions be limited to this transaction please.

Q&A

Jon Hocking (Morgan Stanley): Good morning everybody. I have got three questions, please. Firstly, going back to the slide where you unpack the impact on the RBC ratio, the 60 points. Can you give us some idea of how that breaks down? Mark, you mentioned the ceding commission. How much is the ceding commission? How much is loss of diversification? What capital are you releasing by doing the transaction? Then second question, the diversification strategy you have been running with for a year or so now was focused on building up the general account book and trying to dilute the variable annuity book. Obviously, I can see the financial benefits of the transaction, but it does seem to take you back to being more of VA-skewed business net of reinsurance. Could you comment on that, please? Then finally, looking at where you are now post-transaction with the equity injection and the reinsurance deal you are back in your 400-450% RBC range that you have spoken about historically. I guess that was set up with Jackson as a subsidiary. Mark, you mentioned there is no leverage off the surplus notes at the Jackson level. Should we expect some debt issuance at the Jackson level and any indication you can give us on where you think an acceptable RBC ratio as independent entity might be? Thank you.

Mike Wells: On diversification I think we have been very clear that organic sales were not going to diversify Jackson. I think we have been consistent with that. We demonstrated Jackson can raise – liability type flows, that is sales across fixed and fixed index. I think that is important to demonstrate to both your public and private sources of capital, the breadth of Jackson's marketing and distribution capabilities. Again, we have had an interesting quarter on credit and things so there is new information there that decide when you want particular levels of credit exposure.

On target RBC, yes, we are back in the range we have stated but I think we will engage the stakeholders, Jon. There is a new RBC regime. You see the industry in the US is moving and we will see what the actual level Jackson needs to be a well-rated entity in the upcoming months as we engage with various stakeholders, rating agencies etc. on the market.

Mark FitzPatrick: Jon, hi, good morning. In terms of the RBC calculation, a key component of the reinsurance piece, as you say, is the ceding commission. We do have an aspect of some loss of diversification and some unwind from some of the original recognition from some of the John Hancock business that we recognised during the course of last year that will clearly come back over time because that component stays. There is a slight reduction in terms of the expected yields on the investment portfolio that will also reduce an element of that component. The required capital piece that reduces by virtue of the reduction in the risks and in terms of the element of the C1 charges.

Jon Hocking: You cannot disclose any of the numbers in terms of the ceding commission?

Mark FitzPatrick: In terms of the ceding commission itself, that number is $1.25 billion.

Jon Hocking: Okay, thank you.

Michael Falcon: The other point if you are working on trying to backing out the model on the 60 points uplift, there are tax consequences relative to the ceding commission as well. This is all net of the various facts and it is pro-forma against the March numbers. I am sure we will be updating this at the half-year results through the end of the month. Your point on diversification is well taken and there certainly are covariance benefits in fact, as Mark alluded to, that we actually give up at the margin in terms of the back book. However, the important thing for us is the level of capitalisation and what that enables us to do commercially and going forward. I would point to the success that Jackson has had in building product and distribution in fixed, fixed index annuity and additional products that we have in the pipeline going forward. Diversification both of product and channel remains important and central to us but your point is noted, and it is true on the concentration relative to VA.

Jon Hocking: Just to come back on that, there is no change to go to market strategy in terms of trying to broaden the suite of products.

Michael Falcon: Absolutely no change at all in strategy and in fact we see this as quite enabling in terms of our pursuit of that strategy with our distribution partners. I would echo Mike's comments in terms of debt issuance and rating and what might be in the future in terms of standalone Jackson or what things would look like independent. You are premature to be discussing anything in a forward-looking view like that. We are focused on the transaction today which is accretive to capital and enabling to our core strategy. That has not changed.

Jon Hocking: And with the debt at Jackson?

Mike Wells: Jon, we cannot comment on that. That falls in the forward-looking strategy given where we are strategically.

Jon Hocking: Okay, understand, thank you.

Greig Paterson (KBW): Good morning everybody. I hope everyone is well. In terms of the ceding commission, you mentioned there was a tax benefit. Maybe I could ask the question differently. Of the 60 basis points, what is the US dollar increase in the total available capital so as to catch all the tax and other nuances? Second question of three is, I get the impression that Jackson will continue writing fixed annuities and fixed index annuities on its own account. If that is the case, I am trying to understand whether there will be any loss in new business diversification credit? I.e. will the new business capital strain per unit of new business go up going forward? The third thing is, you talk about these other options to diversify further and you concede that organic fixed annuity and fixed index annuity are not going to do it. I am trying to understand exactly what you mean by that. It seems like bolt-on deals there is an opportunity there. What are the opportunities, if you can give us some examples?

Mike Wells: Greig, we have got to be careful on the forward-looking statements, but I do not think there is anything that suggests in the market that bolt-on transactions are not as available as they always have been historically. I think Jackson has the same options that it has always had. It just has access now to different sources of capital. The scale of that happens to be at a different level to than Group shareholders would want to fund. I think the overall market in the US is there and if anything, it is more fluid. Looking at competitors in that space, there are probably more options than just a general statement.

Mark FitzPatrick: Greig, all the numbers that we are quoting at the moment are clearly based on the end of March position and we will be able to true those numbers up and be able to report actual numbers when we give the half-year results because the reinsurance will be completely in the books at that stage. Clearly, the element of the equity investment has all got to go through a period so that will happen sometime in July.

Greig Paterson: Sorry, just in terms of the increase in tax, is that the $1.2 billion ceding commission, should we assume? The $1.25 billion that is including the tax, or should we tax it and then assume it is an increase in the tax?

Mark FitzPatrick: I would tax it, Greig.

Michael Falcon: New business components there are two components generally as I understand it. I am not the expert. We can follow up with more detail but there is a C1 and a C4 capital look-back component. My understanding is that the look-back is based on business originated and what you are selling. To the extent that Jackson is writing in the future and writing higher levels than we did in the prior 12 months, which at these rates, as you have seen in our prior announcements, is not the case, then there would be additional strain to the extent if you are below it there would not be. However, all of this is manageable within the levels of business that we are writing, and we remain committed to writing FA and FIA business in the market.

Greig Paterson: Sorry, the fixed annuity business, the new stuff, is it going to be on your account.

Michael Falcon: New stuff will be for our account. This transaction that we are announcing today only impacts the business we have written in the past.

Greig Paterson: Once the overall diversification credit because that captures the in-force element as well, does that not mean that new business strain will go up possibly materially because you will be applying an element of diversification credit to the new business?

Michael Falcon: I am not following the logic on it. At the margin there is no difference in new business strain whether we sold the book or not. The new business strain is what it is. The issue is when you are ramping up or down a new product. There is a look-back to say with the regulation would suggest that as a company is expanding or increasing exposure to a product there is some level of risk because that product is new or getting larger. There is a 12-month look-back to volume component. It is to the extent that your current volumes are higher than the preceding 12-month volumes. There is an additional drag charge. We have talked about that last year where we wrote significantly more than the prior year. However, it is not related to what the installed book is. It is related to how much business you are writing. The C1 charge is related to what you have. We are getting beyond my level of actuarial and statutory expertise.

The important takeaways for this, Greig, are this relates only to the back book of business that Jackson has written in the past. As Mark mentioned and as I said earlier, we do lose some covariance benefit relative to the capitalisation giving up that exposure. It is more than offset by the increase in capital both through the accretive effects of the reinsurance transaction itself as well as the equity investment. As you see in the pro-forma 80 points, that takes everything into consideration, and I think the benefit of the transaction relative to capitalisation speaks for itself.

Greig Paterson: Alright, thank you. Thank you very much.

Andy Sinclair (Bank of America): Morning everyone, three from me as well, if that is okay. Firstly, I know that Jackson has bolstered its capital base. I wondered if you could tell us how that changes your hedging approach for Jackson. Secondly, following on from Jon's question about diversification, what does that mean for cash remittance for Jackson going forward? Thirdly, I wondered if you could tell us how you came to the $500 million figure for an 11.1% stake in Jackson? How do you put that into context, the $16 billion embedded value and potential run-off value of the business? Thanks.

Mike Wells: Top line answer is hedging trade-offs are neutral. On the price, in the US market now you do not see insurers trading off the embedded value. If you look at the publicly listed firms, for example, even some of the private transactions that have occurred, it is just not a metric that the market is pricing off. It was a negotiated price and in quite an interesting period of time, if you think about having these discussions over the better part of the last 6-7 months, coming to a value. However, it was a negotiated one and nothing more to it than that. It was based on the value of Jackson, heavy due diligence and then the relative pricing of similar businesses around it, including the counterparty. There is nothing unique about that process than any other public or private negotiated trade.

Michael Falcon: There is no implicit change in our hedging strategy or philosophy around this at all. The additional capital obviously is helpful, and it is good to be, as we have talked about in the past, in our targeted range of 400-450%.

Mark FitzPatrick: In terms of the free surplus generation, especially as we mentioned earlier this morning, the impact is going to be very similar to that from an IFRS basis. We expect it to be a very small reduction in OFSG going forward. We do not think it will really move the needle in terms of considerations around remittances per se.

Mike Wells: As Mark mentioned, any cash distributions we do out of the business they are having an economic interest at 11.1% of. That is one impact. You see it in the materials, the earnings impact of this is very minimal.

Andy Sinclair: Appreciate it, thanks.

Andrew Crean (Autonomous): Good morning, all. A couple of questions. Your general account liabilities at the end of last year were $74 billion. You said you are selling substantially all your fixed index and fixed annuities of $28 billion. What is the other $46 billion, and will that remain within the business? Secondly, coming back to this diversification question, it seems pretty obvious that you shrunk the balance of the general account relative to the VAs. You cannot restore that organically so there is going to have to be over time a quite large inorganic strategy. Can the Board of Pru say that they will not put money behind that strategy and that therefore it has got to entirely come from new private market or public market sources?

Mike Wells: We cannot comment on forward-looking strategy or what we will or will not do in the US as far as bolt-on acquisitions. We are very attuned to what our shareholders want done in the US and we are not currently contemplating any material M&A. I think I need to leave it at that.

Michael Falcon: It is a fair question. We carry general account assets against a number of the other liabilities, life blocks and some of the GIC institutional business that we carry. The variable annuity business does have general account reserve and asset requirements against it as well. Obviously, the $28 billion transference is a meaningful transfer but there is a significant amount of assets left within the Jackson general account.

Andrew Crean: Thank you.

Ashik Musaddi (JP Morgan): Good morning. A couple of questions I have is, first of all, can you update on your view on the US business now? How do you view this? Do you still want to keep a majority stake even after the IPO or you are plan is to exit the US completely over time or say a couple of years? Any thoughts on that would be great. The reason I am asking this is because first you said you want to diversify, then we went towards the IPO route and now we are going back to the diversification route. I want to get a better view as to what your plan for the US business is for the longer-term. Secondly, can you give some colour on the capital generation for the US business on an RBC basis? There are a few moving parts so first of all you are selling an 11% stake in Jackson. Then reinsuring which is leading to some $100 million drag on capital generation. The hedge cost might have gone up just because interest rates are low. What is the update on that? Last one is around RBC capital. Now, how should we think about RBC capital because of the recent market move upwards? Based on my understanding I think you lose capital when the market goes up and that is what has happened first quarter. Whereas interest rates have not moved upward which would have been positive for you. Any thoughts on RBC ratio after first quarter. Thank you. Any direction would be helpful as well.

Mike Wells: I do not think we have gone from diversified to IPO to diversified. If that is what you took away, we are not being clear. We have said over time that diversifying the US business has benefit and we have been very clear that we were not going to do that organically. We are not saying today, and I want to be clear that we are not pursuing a transaction that would diversify Jackson at scale. To make sure everyone is in the same place on the phone, that is where we are. This is an enabling transaction to increase the capital in Jackson. You see the net benefits in excess of $1.25 billion. Yes, there is a trade-off of about $100 million in earnings for that. It was commented earlier, there is no increase in hedge costs. The offsetting capital level creates value and hedge reduction expenses equal to the loss of diversification benefit. It is net effectively neutral. I would not price anything there.

As far as the future direction of the business, what we would or would not do, that is into the forward-looking. We cannot go there and we gave an update on RBC in a range in the quarter, given how unique that first quarter was and some of the noise that people were printing about us that was just directionally wrong. However, we are not going to do a running RBC update. On some of these topics we will give you a better line of sight, as we said, at the August half-year announcement but I am afraid on those two, on RBC and future plans we have said all we can say today.

Ashik Musaddi: Yes, that is very clear. Thank you.

Nick Holmes (Société Générale): Hi there, thank you very much. Just one question. Given that your strategy is still focused on fixed annuities would it not have been better to keep the fixed annuity book and to inject some capital into Jackson? I am interested in your thoughts on that. Thank you.

Mike Wells: No, Nick, we are not communicating this correctly. We like the VA product range. You see it is very attractive There is new product generation coming, as Michael has referenced and we are not going to go into the details of those products yet until they are in the marketplace, to further diversify Jackson. However, the intent is for it to have a suite of capabilities across what its distributors and consumers would like. That is on the organic side. It has capability, as you have seen historically, to do both arms. I think that is proven. That is where we see it now and then alternative models, there are a couple of things you look at. Cost of capital-we talk to all of our shareholders repeatedly about their views on strategy and I do not think at this point our shareholders were looking for us to put billions in. You see the value created from a de minimis loss of earnings in Jackson for the transaction. I think this is a very efficient way to generate capital relative to other options we had as a Group. That was our lens.

Michael Falcon: I think you hit it. There are two components and the principle component around diversification is in the commercial sense is making sure that we have the product and capabilities that our clients need to meet their client demands. We remain committed and we are proud and capable of our efforts in FA and FIA. However, VA is still and remains an important component of that too. It is not that we favour one versus the other. It is that we are looking to restore and present to the market a complete set of the capabilities that our clients are looking for.

Nick Holmes: Thank you very much. That is very interesting. Can I just come back very quickly to the question about the decision to sell the back book? If you are still focused on fixed annuities was there anything wrong with the back book that you were selling?

Michael Falcon: The sale of the back book is capital accretive and generative, and it is providing us actually capability on the commercial diversification. It is not one or the other. The sale of the back book and what we have announced today does not indicate our desire around the product. It indicates value for value, and we are able to recognise we think good value, as Mike said, relative to the earnings that we are giving up from that component of the book. It is reflected in the improvement in capitalisation and no change to our commercial strategy.

Mike Wells: Nick, on the quality of the book, Athene is an incredibly sophisticated counterparty and did extensive due diligence. There are no quality issues at all with the back book.

Nick Holmes: A last question, it seems to me that it might have been better to just inject some capital into Jackson and then you keep the back book which is a key part of your diversification strategy. I am still not quite clear why you did not take that option.

Mike Wells: Nick, I think I have said all I am going to say about what our options were in this space. We can beg to differ on this one. However, you see the earnings trade for the capital generation and I think that is what Michael called value for value. I think it is a uniquely accretive transaction and we stand by it on its metrics. If you do not agree with that I appreciate that but I think we would beg to differ on that one then.

Nick Holmes: Okay, thank you very much for having the discussion. Thank you.

Abid Hussain (Credit Suisse): Morning. I have a couple of questions left, if I may. The first one on the valuation, I appreciate you cannot pull out forward-looking numbers but if I just run the numbers based on the equity stake and your historical earnings, it looks like the business was coming up with a valuation of around three times price to earnings. If I look at the peer group their trading at somewhere between 3-4.5 times. I was wondering if you might want to comment that valuation. Then secondly, coming back to the hedge cost, I am trying to get my head around why the hedge cost impact is going to be neutral because I thought the fixed and the fixed index annuities were providing a natural offset and therefore lowering the hedge cost. I am wondering, what am I missing once you reinsure the fixed annuity book away? Should we be concerned with the hedge cost going forward? How are you going to manage these? If you have answered that then I have missed that.

Mike Wells: No, no, it is a great question. I think the hedge cost like everything else in the US there is some complexity around it. I think the way to think of it is you give me the day in the last four months, and I can tell you where this falls in the valuation range of peers. I think we have all seen the volatility in the markets globally and the US insurers have certainly not been immune to that. At various times it has fallen in various places in that range and this is unlevered again comparing to levered for the most part. There are multiple components there and each of these companies in the States the liability mix they have is different than Jackson's. I think most people that we talk to that are US-centric would tell you that our business is of a higher quality. It has got a single stack IT platform. It has got better distribution service and things than its peers. How that translates in the valuation is in this case negotiated. If we pursue a minority IPO it will be for the markets to define.

On hedge costs there are two things I think I would say. One, we did not eliminate the general account, to be clear. Andrew Crean asked the question. This is a percentage of the overall general account. This is not the general account. There is quite a lot remaining. Second, your actual capital levels have an impact on your hedging strategy. An increase in capital effectively reduces your hedge cost slightly. That is where the trade-off is coming from.

Michael Falcon: Directionally, this does not change our strategy relative to underlying economics with overlay to protect the statutory positions. In terms of where we are in terms of hedging, as we noted earlier, at the March end we lose some covariance benefit through the change in the mix of the back book and the loss, if you will, of the FA and FIA risk. That is at least offset by the increase in capitalisation benefit. In fact, it is more than offset by that but of course it is half-dependent and we are not quantifying or releasing what that is because it is a range based on our analysis. However, all things equal, from a risk and a risk management perspective the capitalisation benefits are equal to or greater than what we are losing on the covarions.

Abid Hussain: It is obviously the capitalisation benefit which is the key here.

Michael Falcon: Yes.

Abid Hussain: Thank you.

Andrew Baker (Citi): Hi guys, good morning. Thanks for taking my questions, just two if that is okay. I apologise if the first one is hammering home stuff that you have been talking about already but it is really talking about how we think about the remittance growth profile of the business. Previously, I think the strategy was to increase the remittance growth profile going forward through this diversification and the lower hedge cost. However, has that runway for remittance growth now comes down? That is the first question and the second one is on your bolt-on appetite. I appreciate you said there is no big transactions that you are looking at but previously I think the assumption was that bolt-ons would be focussed on fixed annuities. Has this now changed? Thank you.

Mike Wells: Good questions. The forward-looking piece on remittance we cannot do. I think what we can say that we said before is Jackson is very capital-generative. When you look at distributions from a US aspect ,one of the things you look at is RBC level pre and post distribution. Additional capital gives you more room that way and this transaction, as I said earlier, you would lose 11.1% of a distribution now to effectively a shareholder. There is lift and drag I think both in there but as far as Jackson's ability to generate capital over the cycle and its ability to remit I think that is proven. The other key that I would tell you is, we understand clearly that in an environment like this and with the options we are talking about, capital formation and capital generation is key to our investors. That is including public and private.

On bolt-ons we are not highlighting a bolt-on strategy here today, to be clear, but Jackson has the ability to acquire and integrate basically any category. What we have been very clear I think over time is there is diversification benefits from fixed, from life and fixed index. There is different benefits from each. There has never been an appetite for long-term care or some of the other harder to price and profit from products. There are lots that we would not do. That list stays the same but we are not suggesting today that we are out looking to do a major transaction, to be clear. Its capability to integrate and its systems and operational capabilities are unique. If there is a unique opportunity, what is different now is you have multiple sources of capital if you chose to do that. That could be anything from strategic to scaling a transaction to capital efficiency, all those sorts of things. It demonstrates the flexibility Jackson would have but by no means that we are highlighting a transaction over the horizon.

Andrew Baker: Thank you.

Gordon Aitken (RBC Capital Markets): Following up on the valuation question, you indicated that the implied valuation was low. Did Athene get a better price for the equity as it took inferior terms on the reinsurance or are we right to think that the two are entirely separate? Secondly, it seems to me there is a professional buyer for credit risk here who thinks the equity market is overly concerned about this risk. Is that fair? Thanks.

Mike Wells: Gordon, I think they are a professional buyer and I think they do recognise value in Jackson. It is a transaction where both sides are happy with it. There are two separate pieces to the transaction, just to be clear, and we approached them as that. Contractually they are and structurally they are. I think that was important for Jackson. It is important for the Group. It is a great question. No, there are two pieces and where you see the similarity, Gordon, is if you are doing the due diligence on the company you drill down to every single year sales vintages, the policyholder behaviour, the pricing etc. Then you base your decisions on M&A or reinsurance or any valuation off the quality of those books. You do not look at the top line numbers. It is quite a bit of work so this is a very informed buyer. Their due diligence capability was strong and we spent a lot of time with them. I think they are very enthusiastic about both sides of the transaction but I will let Marc Rowan and his team give their view. I am sure they are going to tell you they got a deal. We are going to tell you we got a good deal. I think that probably is a good transaction. I would say they are one of the most sophisticated buyers I have seen.

I appreciate we ran a few minutes over. My apologies for that. I very much appreciate everybody jumping on a call quickly and your attention today. I think you will agree; these types of transactions are an important step in supporting Jackson's development and in giving the Group capability and options in the delivery of its strategy. Patrick and the team can help you offline if you have any follow-up questions and obviously, we look forward to briefing you more at the half-year results 2020 on 11th August.

The only non-US piece I want to say here is we keep talking about what the Group can and cannot do in this unique environment. What you are seeing from Prudential globally is we continue to execute on strategy. We continue to execute on innovation. We continue to move forward our options for growth and our capabilities. That is true in the US, that is true in Asia and that is true at the strategic level as you are seeing here today. I am really proud of the work the teams did. This was a unique environment to execute something at this scale and I think they did a really good job. I am very proud of them. I want to thank everybody for their support and we will leave at that.

[END OF TRANSCRIPT]