Proposed Acquisition of ReAssure Group plc

Friday, 6th December 2019

Clive Bannister, Group Chief Executive

This is a proud and important day for Phoenix. I'm going to go through the transaction, Jim is going to talk about the financial components, and then I will wrap up at the end.

ReAssure Group plc is a consolidator of Heritage life businesses. By acquiring ReAssure we deliver additional scale to our own Heritage businesses in Ireland and the UK, therefore this is a wholly logical, intelligent transaction.

The acquisition confirms Phoenix as Europe's largest life and pension consolidator. Phoenix has a very clear set of acquisition criteria which guide us whenever we're contemplating or completing M&A. This transaction meets all of those criteria. It is value accretive. The consideration of 91% of Solvency II shareholder Own Funds, and we expect to deliver £800 million of cost and capital synergies from bringing our businesses together over time.

Second, it supports our dividend. The £7.0 billion of incremental cash generation delivered from this acquisition supports a 3% dividend increase.

And finally, it is consistent with the maintenance of our investment grade rating; so important to us. The funding structure utilises our leverage capacity without needing to return to existing equity investors.

ReAssure is a remarkable and a very fine business. It has grown through consolidation with 23 transactions. We know the businesses of ReAssure well and respect them as formidable competitors to Phoenix. We are, therefore, acquiring a well-diversified Heritage business with £84 billion of assets under administration and £4.1 million policies, and this is in an industry which rewards scale, which will include the mature saving businesses of Legal & General and that of Old Mutual Wealth Life Assurance.

The key attributes of Phoenix's business are Cash, Resilience and Growth. This acquisition enhances each of these three attributes with £7 billion of incremental long-term cash generation, a rise in our Solvency II surplus by 40% to £4.2 billion, and will deliver significant growth to our Heritage business.

The increase in cash generation that arises from the acquisition supports the proposed 3% uplift in dividend per share. This increase will be effective from the 2020 final dividend that we will pay in May 2021. This increase equates to a 10 year dividend CAGR ("Compounded

Annual Growth Rate") of 4.1%. Our annual dividend will therefore rise by £144 million to £482 million by 2021.

Phoenix has a very strong track record of delivering successful integrations. As we've said so many times, we run a business, not just a balance sheet. The integrations of AXA and Abbey Life businesses were completed ahead of plan and delivered synergies in excess of target. The transition of the Standard Life Assurance business is progressing to plan, and we are on track to meet our £1.2 billion of cost and capital synergies for that transaction.

ReAssure is currently undertaking significant integration activity, of which we are very much aware, as they migrate Legal & General and the Old Mutual Wealth businesses onto their very strong ALPHA platform. We recognise the importance of ensuring that these integrations are delivered successfully and in accordance with their current plans under their responsibility. We have, and I make it very clear, no intention of changing those plans.

Given the high level of integration activity already underway in both organisations, we will take, and these three words are immensely important, an aligned approach to the integration of ReAssure with Phoenix, and we will be focused principally on ensuring stability, alignment, integration, enterprise stability. So at this point I wish to hand over to Jim.

Jim McConville, Group Finance Director

Thank you, Clive, and good morning everyone.

We have set out on this slide the key metrics related to the transaction for the combined business on a pro-forma basis.

Overall the acquisition delivers a £7 billion increase in our total cash generation, of which £2.7 billion will arise by 2023.

We see a significant increase in our Solvency II surplus, and the pro-forma Shareholder Capital Coverage Ratio remains comfortably within our target range.

Our outstanding debt rises as we inherit debt from the acquisition and use debt to finance the acquisition, but remains within our target range that is consistent with the maintenance of our investment grade rating.

And finally, we see a significant growth in our assets under administration to £329 billion.

As you know, cash is king at Phoenix and the cash generation remitted to Group from our insurance companies remains our key metric.

The acquired operating companies will add incremental cash generation of £7 billion over the life of the business, taking the long-term cash generation of the combined Group to £19 billion. The profile of cash generation from this acquisition is more front end loaded than, for example, the Standard Life Assurance business acquisition, and we therefore expect £2.7 billion of the incremental cash generation to emerge by the end of 2023. This reflects, in part, the cost and capital synergies that we and the existing ReAssure business expect to deliver over this time period.

It is worth remembering that the cash generation guidance we give continues to exclude new Open business, new BPA deals and any further M&A. And additionally it does not place any value on management actions after 2023.

Our approach to the integration of the ReAssure business with Phoenix will ensure that we protect the integration work that is already underway within both organisations. We expect to deliver significant cost and capital synergies totalling £800 million from this transaction, reflecting the benefit of Phoenix's industry leading operating model and approach to capital management.

By combining the Group functions of the two businesses and integrating the Financial and Actuarial functions we expect to be able to deliver a reduction in the combined cost base of the Group of £40 million per annum. This equates to capitalised cost synergies net of tax of £400 million. As Clive stated, these synergies exclude any benefits that may arise from the integration of Customer Services and IT operations. Our focus will be to safely complete the Standard Life Assurance transition and existing ReAssure integration work. Any benefit will therefore be additional to these targets.

We anticipate delivering capital synergies of £450 million, and consistent with previous acquisitions, we will hedge around 80% of the shareholders' exposure to equity risk from the date of announcement, and will harmonise the approach to the hedging of interest rate risk from completion.

We also expect to increase the proportion of longevity reinsurance of the acquired annuity business to around 60%, in line with Phoenix's risk appetite.

Capital synergies also include benefits from Part VII transfers for both the UK and Irish businesses. And it's important to remember that the synergies we anticipate are from similar actions that we have undertaken in our previous deals. It is a road well-travelled and we can take comfort from the experience we have gained.

The consideration of £3.2 billion represents 91% of Solvency II Own Funds as at 30 September 2019. This is an attractive price and is broadly in line with our prior acquisitions of AXA and Abbey Life in 2016, and the Standard Life Assurance Limited businesses in 2018.

ReAssure's Own Funds are presented on a shareholder basis, excluding £1 billion attributable to the three hybrid capital bonds that ReAssure has in issue.

On this slide we show the movement of ReAssure's Solvency II Own Funds from 31 December 2018 to the 30 September 2019 pro-forma Own Funds being acquired.

ReAssure's Own Funds have benefited from a number of positive variances over this period over and above the expected surplus emergence. Model and assumption changes have increased surplus by £0.3 billion and include a £0.1 billion release from changes in longevity base tables for recent annuitant mortality experience. The business has also seen a £0.3 billion positive variance from market movements during the year.

The 30th September 2019 solvency position also assumes a dynamic recalculation of transitionals which has contributed £0.2 billion to Solvency II surplus. PRA approval to the recalculation of transitionals will be sought at 31st December 2019 as part of the industry wide recalculation exercise.

Finally, these pro-forma figures anticipate the strain associated with completing the Part VII transfer of the savings business from L&G business, and the completion of the Old Mutual Life Assurance acquisition. It is worth noting that ReAssure expect to deliver cost and capital synergies on the integration of the Old Mutual business which are not reflected in this pro-

forma position. The pro-forma Own Funds for ReAssure at 30th September 2019 are therefore £3.5 billion.

The total consideration of £3.2 billion will be funded through a combination of £2 billion of equity and £1.2 billion of cash. This efficient financing structure utilises our existing debt capacity and does not require any primary equity issuance.

A total of 277 million shares in Phoenix will be issued to Swiss Re, part of which will be transferred to MS&AD, the current shareholders of ReAssure. This number of shares has been calculated based on a 30 day Volume Weighted Average Price of 721.3 pence per share.

The £1.2 billion cash consideration will be funded through a combination of debt issuance and our own resources.

We expect that we will issue hybrid debt of circa £800 million and use £400 million of senior debt. On this basis the pro-forma leverage position remains within our 25% to 30% target range.

At completion, Swiss Re and MS&AD will between them hold around 28% in the enlarged Group in broadly equal proportions. Swiss Re and MS&AD will enter into a Relationship Agreement with Phoenix with the right to appoint one director to the PGH Board as long as their holding is greater than or equal to 10%.

Standard Life Aberdeen, who are currently our largest shareholder, will see their strategic holding diluted to circa 14.5%. However, this will not change the nature of our Strategic Partnership. We will work with Standard Life Aberdeen to explore opportunities to strengthen this partnership through the acquisition.

And we look forward to working closely with all three of our strategic shareholders in delivering our vision to become Europe's leading life and pensions consolidator.

At completion we anticipate the combined debt of the Group to be £4.7 billion. This is based on the assumption that we raise £1.2 billion of debt from the acquisition through a combination of the £800 million hybrid issuance and £400 million of senior debt.

It is anticipated that the senior debt will be repaid in 2021 and whilst it is not possible to be definitive about our actions in respect of the hybrid capital instruments it is expected that the cash generation profile of the enlarged Group between 2020 and 2023 will support the repayment of bonds at the first call dates. If this were to be the case the £4.7 billion debt stack at completion will have reduced to £3.3 billion by the end of 2024. And we, therefore, expect to remain within our targeted leverage range of 25% - 30%.

The Group's Solvency II surplus will increase by £1.2 billion from £3 billion to £4.2 billion. This results in a Shareholder Coverage Ratio of 148%, comfortably within our target range of 140% - 180%. This ratio does not include the benefit of the hedging action that Phoenix has taken to reduce ReAssure's exposure to equity risk, nor does it include the synergies that ReAssure expect to deliver following completion of the acquisition of Old Mutual Wealth.

These actions will have a positive impact on solvency and we therefore expect the pro-forma Shareholder Coverage Ratio to be approximately 5% higher at completion, all other things being equal.

Turning to cash generation we show here a slide that is very familiar to you. This sets out the sources and uses of cash including the impact of the proposed transaction. The analysis assumes that the dividend is increased from the time of the 2020 final dividend and assumes that all bonds are repaid at the earlier of the first call date and maturity. It illustrates that holding company cash will build over time and this will be used to fund further BPA and will also be available for future M&A.

And then following on from that slide we show the position here beyond 2023. There is a significant expected cash flow over the longer term with the acquisition adding £4.3 billion to Phoenix's existing expectations of £8.2 billion from 2023. This provides additional durability to the dividend.

It is again worth remembering that these illustrations do not include any incremental cash generation from the new Open business or BPA or from future M&A. They also exclude management actions.

I will now hand you back to Clive to conclude.

Clive Bannister

Jim, thank you. I conclude. The benefits of the acquisition of ReAssure are compelling and confirms Phoenix as Europe's largest life and pensions consolidator. At a price to our Own Funds ratio of 91% this deal is value accretive to shareholders. We see significant potential for cost and capital synergies from the consolidating of consolidators but will take an aligned and integrated approach to ensuring enterprise stability as we move forward, subject to the regulatory approval after a change in control programme.

The incremental cash generation from the acquisition not only supports a 3% increase in dividend per share but increases the sustainability of our dividend long into that future.

The resilience of the Group is maintained with both solvency and leverage ratios, as Jim has described, remaining within our target ranges. And the Group will have additional cash and capital available to support its growth options, including BPA and the new Open business which will deliver incremental long-term cash generation, as we described so clearly at our Capital Markets Day on the 28th of this month.

To close, Phoenix is a really remarkable company. Today marks another significant milestone on our consolidation journey. We have, and we will continue to deliver Cash, Resilience and Growth. This transaction is wholly logical and intelligent. So I end where I started this is a proud and important day for the Phoenix Group.

Thank you very much indeed.

Q&A session

Question 1

Ashik Musaddi, J.P. Morgan

Just three questions I would say. First of all I know you will not like this question it may be too early, so you have done a big deal now, when do you think you'll be back in the market to do M&A again?

Clive Bannister

So we have a comedic element right at the beginning of today, fine carry on Ashik with question number one.

Ashik Musaddi

Yeah sorry I asked this question at Standard Life M&A as well, so you're back in the market in less than two years so I just want to understand how you think about that?

The second thing is what is the magic formula behind the 3% dividend growth? Any thoughts on that, how you arrive at that number? And I think what I'm trying to understand is let's say if you don't do a deal for the next five years how should we think about your dividend, let's say five, ten years, instead of five years only? No M&A for ten years, how should we think about the sustainability of this dividend is the second question?

And third is can you give us some sense about macro sensitivities now, given that Brexit is coming, elections are coming, how do you feel about the balance sheet…

Clive Bannister

Brexit is coming and?

Ashik Musaddi

Elections are coming, I mean probably we'll hear in the next week what happens with the election result, so if macro moves then how comfortable you are with your balance sheet? Thank you.

Clive Bannister

Fine okay, I thought there were four questions there, back in the market; magic formula behind our dividend; dividend over the next five to ten years – I have a crystal ball right here Ashik, I'll share it with you; and then Jim you're going to deal with the macro sensitivities but we've already done the hedging. As you know we always hedge to protect solvency. We use that word resilience, beginning with an R, we do it, unlike many of our other competitors, and yesterday afternoon even though we don't know, subject to regulatory approval, the change control process, we've already hedged and protected the equity and rates value in the asset that we hope to own sometime in the middle of the year. But will you take the other point of the question on the macros?

So when are we going to be back in the market? Not for the foreseeable future. We have a lot to do in our own family but more importantly we have to work and wait for the change of control process.

But let's step back and look at the strategy of consolidation. This is a massive vindication of what this company has believed in for the last decade and the journey of our industry. So there's a sense of a naturalness to this transaction. Our friends in Swiss Re, a world class, outstanding company, acquired ReAssure in 2003 and they have built, over 23 transactions, a formidable business, a really remarkable business in ReAssure. And they were building, as we've been building in Phoenix, a vehicle that anticipates continued consolidation.

We mentioned a number which was £580 billion, that is the UK market being over 70% of that, Germany and Ireland. We've reinforced our Irish business by a small amount. We still believe the largest amount of consolidation will take place in the UK market in the coming years where we have the greatest amount of relevant skills, transferable skills and of course the best scale.

So we are going to absolutely focus on what we're doing today but the market will continue to consolidate. I completely believe that any vendor will come and have a conversation with us. They'll see the prices we pay, they'll understand the certainty with which we can complete transactions, and of course the speed. And those three things, price, certainty and speed are attributes that we will bring to a market which will continue to consolidate.

Well the magic formula is our dividend remains stable and sustainable. It is Christmas time so I hope that somebody will say thank you, an early Christmas present. We have asked our equity investors for no money in this transaction. We are leveraging our company from 23% up to 30% but staying within the tramlines which protect our investment grade, very important, and will remain so for the duration of the numbers put up by Jim, as you saw the pay down of debt of £1.4 billion over the next four years, five years to protect that investment grade rating.

So we've done an efficient, and I'm going to use the word elegant, financing structure. We've adopted an efficient and elegant financing structure which allows us, because of the confidence in the future cash flows, to raise dividend by 3%. There's no magic on 3%, it reflects what we know is now proportionate and where we find ourselves.

We should also say that for a company that has a stable and sustainable dividend policy if you take the CAGR, the ten year compounded rate of our own dividend it's 4.1% and I set that against a three year or a five year Total Shareholder Return, which is somewhere between 130% and 150%. So there are other ways in which we deliver value to our shareholders, that's been proven over the last three and five years in our TSR. So that's the second.

You asked me about the dividend for five and ten years, well I think you have to look to our Board and Andy Briggs and they will be much more capable than I am in answering that question. Our dividend policy remains stable and sustainable and that's what our business model is.

Jim, macros.

Jim McConville

Yeah before that I would just add to that dividend question you can see from the cash slide that we put out on the sources and uses to 2023 that the dividend is very well covered over that period and I will leave you all to play with your models to work out the period beyond that.

I'm not going to give you a prediction on Brexit, I don't think that's within my gift, nor the result of the election, much as I would love to. I think the key thing for us is in thinking about this acquisition we are being consistent in how we think of hedging our balance sheet. So, as you know, we seek to protect the surplus. That is our absolute focus in our hedging approach. And the reason we do that is quite simply that that protects the cash generation and that in turn then protects the dividend and the interest payments and so on. So it's a perfectly logical approach that we will adopt.

We see the opportunity to take that same approach with the ReAssure business. Yesterday we completed a series of transactions in the equity market to take the cover out to hedge 80% of the equity risk within the ReAssure deal. That's consistent with the approach that we have taken to previous transactions where we've hedged from announcement and upon completion those hedges will transfer into the Life Company themselves.

And we will, post completion, look at changing the approach to interest rate hedging that will bring them in line with our approach within Phoenix.

So a combination of these makes us very comfortable with the balance sheet strength and we will be moving to, as I said earlier, completion, Shareholder Coverage Ratio of 153%, which is very similar to the level that Phoenix currently enjoys today. So we are very comfortable at that level.

<u>Question 2</u>

Ming Zhu, Panmure Gordon

Just three questions please. First is you just mentioned that you still see the biggest opportunities of M&A in the UK, so what's your plan for Germany? What's the rationale for holding the German business there given it's mostly run-off?

And the second is your wedge, because this ReAssure deal is good for you in terms of cash generation, very early year cash weighted. But does that mean that wedge is going to run off at a much faster pace early years? And what do you need in terms of the Open business to flatten it out without BPA stuff?

My third question is you've done a good job in terms of getting rid of your biggest competitor by buying them at a discount.

Clive Bannister

Subtle, Ming, ever subtle.

Ming Zhu

Now you are the biggest consolidator in the UK. So, going forward are you concerned in terms of the regulator, will they see you as a monopoly?

Clive Bannister

So, we have three questions. Jim, you'll take the second one, the nature of the wedge. We are a tri-ped; we have a Heritage business, an Open business and a BPA business. But the question about how we treat the wedge going forward Jim will deal with in a second.

Well Jim, why don't you deal with that and I'll deal with Germany and I'll deal with the CMA?

Jim McConville

I think most of you will be familiar of the concept of the wedge, which we have described for some time now in explaining how our Heritage business runs off and how the cash generation that we lose from that can be replaced from the Open business that we have with Standard Life.

Clearly with the acquisition of this business the Heritage business gets better and therefore the gradient of the wedge changes.

So, where we stand today as we've said our Heritage business runs off broadly at 5% per annum, and we would need Open growth of around 4% per annum to offset that decline in cash generation. And we described in our Capital Markets Day and in our Half Year results the progress that we've made to date; we've been very pleased with the progress we've made to date in the cash generation from Open business and BPA. But we haven't declared victory on the wedge yet, it's still too early to tell, but a very promising start.

The acquisition of ReAssure increases the start point of the wedge from £400 million to around about £700 million. And the rate of decline of the Heritage business in the ReAssure book is broadly at the same level as the existing Phoenix book, so around about 5%.

So, if you look at the expectations we have for the Open business and you look at the growth that we see coming through from our BPA business at the current rate we are doing BPA business of around about £1 billion of liabilities per annum. We would see effectively sufficient cash generation coming through from those two sources of new business to offset that increased Heritage run-off. So, I think with the BPA business running at the level we have we've still got a position where I think the new business will give us over the long term sufficient cash generation to offset the decline in the existing business.

Clive Bannister

Jim, thank you. So, the question was about CMA, Competitive Markets Authority and competition issues. We're not complacent, we've thought about this extremely hard. We think there is no case to answer for. And we say that for two reasons.

First of all we're dealing with Heritage. This is a Heritage business. These are in-force policies, the £4.1 million joining our own Heritage business, so there is no competitive issue. It's about making sure that on a point of retirement or availability of alternative annuity options or drawdown we are as competitive as the rest of the markets.

That takes me into the second reason, is when we are in the accumulation side or giving customers choice upon the point of retirement it is a ferociously competitive market and we have a tiny market share. So, we think that this is not an issue, but of course we've done the thinking prior to that.

Then you've gone back, and I think in Capital Markets Day, Ming, you asked about Germany. Germany and Ireland are not for sale, period. We believe that the consolidation which has taken place for the last 20 years in the UK is going to take place in Europe. You can look at VIVAT, you can look at Veridian and the deals done in Germany, it is starting to happen. In a low interest rate environment it becomes less and less compelling for some of the incumbents to own Heritage businesses in the continent of Europe.

Who knows when, if ever, we would do a transaction? But right at the moment through the acquisition of Standard Life reinforced only by about 5% in Ireland through this proposed acquisition we get a strategic optionality. And optionality has a value because to make money, as you know so well, Ming, you have to have a pre-existing asset upon which you can then and largely in Europe we think it will be a cost synergy gain rather than a capital synergy or a financing gain, and therefore we go to bat with something which is important. We bring all the PLC credentials with all the governance issues in a market where there's a lot of private equity, and we believe that will find favour with the regulators. And therefore we state very clearly it is an opportunity. These businesses are European businesses, more

than contribute and cover their cost of capital, and so they will be retained for reasons of strategic optionality.

But that does not mean we're about to get our European passports and go travelling abroad. We are focused on what we have in the UK right now.

<u>Question 3</u>

Andrew Crean, Autonomous

Three questions if I can. Firstly, are you thinking of committing more capital to the BPA business to prevent the wedge from coming a slither?

Secondly, the £7 billion of additional cash, that obviously includes the extra £0.8 billion of cost and capital synergies. Does it also include the £0.2 billion which ReAssure were going to get out of the Old Mutual deal?

And thirdly, can you talk a bit about this equity hedging, because it looks like a free lunch? On day one, abracadabra, there's more capital. But it does cost money. Could you tell us essentially the cost of hedging, what is the coupon on the capital which is created?

Clive Bannister

So, three questions. I'll take the first one and Jim, if you would deal with what is involved or what comprises and contributes to the £7 billion, and then talk about the equity hedging.

We believe in BPA. We've said it's proportionate, highly selective. It was Simon who said he looked at 56 transactions and I think completed four in this calendar year. But the maths was compelling. We showed it at Markets Day: £98 million of capital committed for something like £240 million of very long-term cash generation.

But there's a balance here between the capital we have available versus the availability of high-quality illiquid assets. And again, Simon was very fluent about the way in which we have not gone down the credit curve in order to be able to just pump up the BPA. Our natural market share is always going to be modest so we've said somewhere between 3% and 5%. The market this year we think is around £40 billion, and we will have done £1 billion of liabilities before the closing of this year.

But what this number shows here, so this is such a fundamental slide page 19, you can see we start this period with holding company cash of £300 million, and we end up net all of our obligations, paid down our debt, with £1.7 billion. And clearly we now have the scope to deploy more capital to the areas where growth presents themselves. But at the moment we are going to stay at that 5% market share, which is about £100 million of capital committed, and we'll see what the future holds.

So, that would be my answer, but it is a very good business and we are very good at it.

Jim McConville

As you said, Andrew, we expect from the ReAssure business £7 billion of cash, of which £2.7 billion comes in the first few years to 2023, and the balance thereafter. That is a slightly quicker return of cash than we see from the existing Phoenix business. I think in the first few

years to 2023 in the ReAssure business we get 38% out compared with 32% in the Phoenix business.

The numbers do include the benefits that ReAssure anticipate from doing the Quilter transaction, and they do reflect the synergies that we have announced today.

And on your hedging…

Clive Bannister

Free lunch.

Jim McConville

Free lunch – if everything was a free lunch. Clearly, we will use a mixture of options and swaps. We anticipate the upfront premium cost of the transactions that we have done yesterday to be fairly de minimis. So, we don't see a significant upfront strain from those hedges going in. But clearly we are giving away some upside, which we've reflected in the cash projections as we go forward. So, there is no free lunch.

Question 4

Jon Hocking, Morgan Stanley

I have three questions please. Could you give us some colour please on the phasing of the synergies you've announced this morning? That's the first question.

And then secondly, on the capital synergies how much of these synergies are effectively things that would have been achieved by ReAssure on a standalone basis, apart from existing plans, and how much is incremental?

And then just finally, probably a stupid question, but in terms of the equity consideration is the number of shares you are issuing fixed or the £2 billon fixed?

Clive Bannister

Jim, you'll deal with the last two in terms of the capital and the equity fixed number of shares, which is where we are.

I'm going to go back to page eight. Really important. We do this as a living and you get it right. We are not going to have any enterprise instability, and therefore it's like air traffic control, and we have three different phases on this slide, three different colours.

We have our own workload, which is well within our bandwidth, and which we are well advanced. And as you can see, we will break the back, if I can use that, of our Financial and Actuarial transformation, crucially delivering, subject to the agreement and cooperation of the PRA model harmonisation. Absolutely crucial for us to get that laid down. This is a spread business and we have to price our capital against our liabilities and do that within an internal model. We were one of only nine companies to get an internal model in 2016, and this is the first time we or the PRA have ever had to merge two internal models. That all has to get done on the 12th of this month. We announced what we were doing in the Customer, IT and Ops area. We've always said that's a two to four year. You take great care when you are migrating immensely complicated systems, and that is what we're doing in our own

family with our hybrid base. We're a hybrid business, we manufacture ourselves, and we outsource with fabulous partners, TCS, and use Edinburgh as our operational hub for that. That's us.

The blue is in flight and we're not going to interrupt with those. ReAssure is very well organised. One of the reasons that this is less risky in certain respects for our business than Standard Life Assurance is because this business was – and I hate using Boris Johnson's phrase – oven ready; it was prepared for an IPO. That means they have the quality of management, line strength, bench strength, and they had done the thinking to be able to deliver the numbers that they had thought about in their IPO document. We're not going to interrupt anything to do with that. And their plans are well advanced for completion of Part VII on Legal & General, and the completion subject to regulatory approval of course, of the acquisition of Quilter, and then the realisation of those synergies. And Jim will talk about that.

And then finally, what happens in the future. First of all we're going to put this, because it's a Heritage business, it is 60% unit linked, it's 20% annuities and 20% with-profit. Everything that we understand, and we understand the methodologies for doing management actions etc., and then we have the phasing approach, you can see that deliberately the complicated heavy lifting is left, won't even begin until 2022, and that is thinking about Customer, IT and Operations to ensure that there is enterprise stability.

We believe that the capital synergies, as always, can be delivered earlier on and faster. And then in a progressive way we will deliver the cost synergies, but absolutely making sure that policyholder interests are delivered, and also ensuring – I'm sorry to repeat it again – enterprise stability. That's the phased approach that we will adopt. And as you know, it's slide four on any Full Year or Half Year announcement, we say: this is what we've said we're going to do, this is what we've actually done, and here's the progress to meeting those targets.

I think it's fair, Jim, to say that on the synergy side we have over delivered on everything we put in the public domain. You have the maths and you may want to comment about that. But anyway capital and the shares, fixed shares.

Jim McConville

I'll just pick up on that point, on the cost synergies. The cost synergies that we're recognising today relate to essentially the head office functions and the likes of the PLC costs and the Finance and Actuarial functions. So we haven't recognised any synergies related to Customer Service and IT. Therefore the percentage of the synergies relative to the cost base for this transaction is relatively low, 12%, against the total cost base, and that compares with what we realised in the past: 53% for the AXA deal; 38% for Abbey; and a forecast 21% for Standard Life. But that's really recognising we've got a limited approach to the recognition of synergies thus far.

In terms of your question on capital, Jon, and whether those actions are available to ReAssure on a standalone basis, there are three key things. One is hedging, and as we say, adopting our philosophy towards hedging. Clearly that could be available to them if they chose to do something similar. Second is, increasing the longevity reassurance, which again could have been done as a standalone action. But the final one is recognition of the journey we will make in bringing the Life Companies together and the internal models together, and the Part VII work and so on that that entails, and clearly that would only come about as a result of this transaction.

Clive Bannister

They're on a partial model and will conjoin our internal model in time. It's a fixed number of shares.

Jim McConville

Shares are based on a 30 day Volume Weighted Average Price of the Phoenix shares, which were struck last night. That's resulted in a number of about 280 million shares being issued. So that's fixed, and that takes our total shareholding to 999 million shares.

Clive Bannister

It was 1.1 billion, but the share price has been strong so it's now just under 1 billion.

<u>Question 5</u>

Ben Cohen, Investec

Two questions please. Firstly, just to follow up on the synergies point. I just wonder how much work you've done on the ALPHA platform, and whether that's something that you could look to take your business onto? Whether you would be minded to maybe take things off that? I appreciate it's years away, but obviously it would be important in terms of the eventual synergies that you might get to for the combined business.

My second question was, you're buying your biggest competitor at the moment. In terms of the additional scale that that gives you, how do you think about the risks around the next deal or further deals, and the size that those might need to be for us to continue to see sort of dividend uplift on the completion of deals?

Clive Bannister

It's years away. So, first of all we recognise that the ALPHA system, what we know about it, is a very formidable system and it really works. It's had the ability, it's been grown, developed, invested in over many years. It has thousands of people who support it. It has had the ability to absorb and inboard complicated businesses like Legal & General, and I have no doubt in time Old Mutual. So this is a working system. So you're right to point out that this gives us optionality. We are an outsourced and an insourced business. We are a hybrid. And the third observation is it is years away, that's why we put up this slide, we want enterprise stability. We're not going to rattle at any cages whatsoever, and our sense is that we have a lot of learning to do to understand what we can bring to it, and what it can bring to us.

The second one is about the biggest competitor, what about the next deal. I think that is too futuristic. There has been a trajectory in the deals. They still happen about once every calendar year/once every 18 months. Size is not the criteria. It is about the quality of the cash flows and where we can transfer relevant skills. We've always said that. Just because something may be small, does not mean that we won't take it very seriously, etc. As it's well known in this family here, we were involved in looking at the Quilter transaction earlier this year.

So, I can't answer that question about what next, but our dividend policy remains stable and sustainable until there is a reason for changing it. And that can come in a multiple of ways,

one of which is another transaction, and/or aspects of the wedge are proven out and our solvency ratio moves. As we've said, we operate between the tramlines of 140% and 180%, and we've always said that as we get towards 180%, it's not our money, it's owned by our shareholders, and we'd have to think about policies then. As I said right at the beginning, that's for the next generation of management and the Board to decide upon.

Question 6

Dominic O'Mahony, Exane BNP Paribas

Three questions for me as well, if that's all right. The first two on the structure of the deal. In terms of the debt, how sort of cast iron is that underwritten? Is the pricing of that debt totally fixed? There's at least a risk that we have a nasty political outcome in a week. We just wanted to understand that piece.

The second is, you're raising £1.2 billion of debt, and the cash consideration is £1.2 billion, so it doesn't look like you're using any of the cash on your current balance sheet. Is that an option? If so, how much could you use, and would you be willing to use that instead of raising more debt? Or are there any other dynamics I should be thinking about in that regard?

Then finally, coming back to this question about the operating synergies which you've very clearly not put into any targets here. At first glance one would expect the operating synergies, if they are ever available, might be quite small, because we have two very lean consolidating platforms. Would there be anything to stop you using ALPHA for Diligenta? Would Diligenta be able to use any of the tools techniques that ReAssure have? Is there anything to block that?

Clive Bannister

Fine. Jim, I think the first two questions are for you about the nature of the deal and the pricing of our debt. And the second part of that question was of that £1.2 billion how much are we using our own resources, our own RCF and then going into the subordinated market in time.

Jim McConville

The £1.2 billion of debt that we have underwritten is a volume underwrite, so the price of that will be determined by the market conditions at that time whenever we issue that debt. In terms of what we expect to happen, on completion our expectation is that we would issue roughly £800 million of hybrid debt, and use £400 million from a revolving credit facility. Our expectation is that £400 million can be repaid pretty quickly given the cash generation that will result from this deal. So, £800 million hybrid, £400 million short-term senior debt.

Clive Bannister

And the debt on our hybrid, we have just over £2.5 billion, is just five and a bit percent, and on the RCF it's 30 bps.

Jim McConville.

35 bps.

Clive Bannister

35 bps. That's the price of our money. Perfectly fair question about the ‘what ifs’. I don't know. There is a mature operating platform in ALPHA of real quality, and there are formidable platforms within our friends at TCS, and this is all in the future. But again there is a value to optionality, and it will be thought about over the next as we've said two or three years.

Concluding comments: Clive Bannister

I started by saying this is an important and proud day for Phoenix. Why do we believe in this transaction? It's strategically 100% on message. It's what you would expect us to do. It brings very substantial additional cash flow coming to a reservoir of value of £19 billion. It maintains our balance sheet strength, and that's really important, and drives our surplus to £4.2 billion. The opportunity for significant synergies, we've been sober, Jim has used the number 12% of a cost base of around £330 million today. It has attractive pricing at 91% of UT1. The last time we did a deal at this price was Abbey Life at 89%. That's proved a remarkably successful transaction for Phoenix, for our shareholders, and our policyholders.

We've used an efficient financing structure. We haven't asked for money from the equity holders, and therefore we're delighted to be able to give back the dividend of a 3% uplift. And we think that this supports our growth. The nature of these cash flows where there is a degree of front-ending and then a long trail, matches so comfortably our existing cash flows, and therefore it will allow us to consider additional growth in BPA in the open markets.

So, I want to thank everybody in this room, many of our advisors are here, and the immensity of the hard work that has gone in, in the last few months, and recognise that this is a logical, intelligent deal for Phoenix. Thank you very much indeed.