2018 Full Year Results

Friday, 5th March 2019

Nicholas Lyons (Chairman)

Clive Bannister (Group Chief Executive)

Jim McConville (Group Finance Director and Group Director, Scotland)

Andy Moss (Chief Executive, Phoenix Life and Group Director, Heritage Business)

Susan McInnes (Chief Executive, Standard Life Assurance Limited and Group Director, Open Business)

Nicholas Lyons:
Well good morning ladies and gentlemen and welcome to Phoenix Group's 2018 results presentation. I am joined on the podium today by Clive Bannister, our Group CEO, Jim McConville our CFO and Group Director Scotland, Andy Moss, CEO of Phoenix Life and the Group Director of our Heritage Business, and Susan McInnes, CEO of Standard Life Assurance Ltd and the Group Director of our Open Business. The acquisition of Standard Life Assurance Limited in 2018 was quite simply transformational for Phoenix. It allowed us to evolve from being a UK closed life consolidator, into the largest life and pensions consolidator in Europe. With Heritage and Open Businesses spanning the UK, Germany and Ireland. 2018 was a year marked by outstanding strategic delivery, and strong financial performance which has enabled the board to recommend a final dividend of 23.4p per share as planned, a 3.5% increase over the final 2017 dividend. Clive and his team will take you through Phoenix's 2018 results and the new targets we have set for the business moving forward. From the 18th of March, Phoenix shares will be included in the FTSE 100. A measure of our growth story and our achievements to date and we look forward to the future with great optimism.

Clive

Clive Bannister:
Chairman, thank you. And good morning and welcome to everybody.

Phoenix had a strong 2018. At our Capital Markets Day we announced £664 million of cash generation in the year, exceeding the upper end of our 2017 / 2018 target range, delivering a total of £1.3 billion. The Group has in parallel, improved its capital resilience, with a Solvency II surplus of £3.2 billion. This is up by £700 million, from the full year 2017 pro forma, resulting in a Shareholder Capital Coverage Ratio of 167%. Fitch confirmed the

strong financial position of the group by their affirmation of our A plus rating. Our leverage ratio at the end of the year was only 22%, its lowest ever. To improve our customer service, particularly digital engagement, we are moving two million policies to the Diligenta outsource platform. For us this is more of the same, since Diligenta has been a preferred strategic partner for over a decade.

Turning to our strategic priorities, the transition of Standard Life Assurance is well on track. We were successful in the Bulk Purchase Annuity, or BPA market, putting £100 million of capital to work across three value accretive deals. The integrations of AXA Wealth and Abby Life are now in our "rear view mirror". And we have released £1.0 billion from these businesses, circa 75% of the original acquisition price paid, and we have done that in just 24 months. This is Phoenix at its best.

Phoenix looks to the future with confidence and announces new increased targets for the group. Our 2019 cash generation target is £600 to £700 million. Our new long term cash generation target for the five years 2019 to 2023 is £3.8 billion. Beyond 2024 we anticipate a further £8.2 billion of cash generation from the existing in-force book, demonstrating the Group's strong long-term cash flow profile. The Group continues to have a stable and sustainable dividend policy. Acquisitions have allowed us to increase the dividend three times in the last three years. Our 2019 dividend per share of 46.8 pence per share is circa 12% higher than our 2016 full year dividend. Already in 2019 we have injected £250 million of capital into our Irish subsidiary in preparation of Brexit. Absent this, our cash generation for 2019 would have been circa £850 to £950 million.

As the chart on the right hand side of this slide demonstrates, we are able to fund our dividend comfortably from just our organic cash generation. Turning to our acquisition of Standard Life Assurance upon announcement in February 2018, we said a total cost and capital synergy target of £720 million pounds. Since completion in August we have successfully worked with our new colleagues from Standard Life Assurance to design an operating model for our combined businesses. It is clear to me as chief executive that Phoenix will be forever strengthened by the breadth of skills that our new colleagues bring. I am extremely grateful for the hard work across all of our group entities that has ensured that our transition program has and will deliver the best of both.

In November at our Capital Markets Day, Jim talk confidently about us being able to meet or exceed our original synergy targets. So today I am pleased to announce an increase of £500 million, or a 70% increase to a new total synergy target of £1.22 billion. Total capital synergies rise to £720 million, the largest single contributor, with the total cost synergies of a further £650 million.

In 2018 we rapidly delivered £500 million of those capital synergies. Andy will talk more about that in a few minutes time.

We now target reducing our annual running costs from around £600 million to £525 million. This is an increase in our cost synergy target from £50 million to £75 million, and reflects our growing certainty over the savings that we will deliver over the next of the three phases. The £14 million delivered in 2018 has primarily been achieved by removing duplication in our structures across the UK and Europe, and the combination of group functions. The one-off cost synergy target of £30 million relates to savings on projects that were in operation, and were in the operating plans of both entities at the time of due diligence. For example IFRS 17 where the Group will now have just one single project moving forward. To deliver these increased synergies we will invest £150 million, an

increase of £15 million compared with the original transition costs of £135 million. We still expect to deliver all of the material synergies within three years.

Get used to this slide. It will become very familiar as we use it to track and announce our progress going forward. This brings me neatly to what we are calling affectionately or otherwise "the wedge". Sounds like a sort of Hollywood movie, doesn't it, - "the wedge". We use this exhibit at our Capital Markets Day to set out the truly transformational nature of the Standard Life acquisition by illustrating the potential shape and sources of our future cash generation. We put forward the hypothesis that the growth of our Open business may in time entirely offset the run off of our Heritage business. Jim will talk you through the maths of the wedge so that you can understand why we believe that this is possible in the future, but Phoenix is not yet there. We continue to set all our cash generation targets based on the policies we have enforced today, not anticipating business in the future. Only time will tell whether the rate of growth in our Open business is sufficient to offset the run off of our Heritage business. However, even if the offset is not fully realised, our run off will be significantly dampened. This will give Phoenix a more sustainable cash generation profile into the future.

I will now hand you over to Jim.

Jim McConville:
Thank you Clive and good morning everyone.

2018 has been a successful year for Phoenix with a strong set of financial results. I'll take you through each of the key metrics in more detail shortly but let me set out in summary the financial highlights. Strong cash generation of £664 million, Group operating profit of £708 million, leverage ratio of 22 %, below our target range of 25 to 30 %. PGH Group Solvency II surplus of £3.2 billion and the shareholder capital coverage ratio of 167%. A pro forma full year new business contribution from our UK Open on European business of one £154 million, and this will be explained later. Assets under administration of £226 billion, and a final dividend for 2018 of 23.4 pence per share.

We have a long track record of either meeting or exceeding our cash generation targets by delivering £664 million of cash generation in 2018, we took our total cash generation over 2017 and 2018 to just over £1.3 billion pounds exceeding the upper end of the target range. In this period management actions accounted for nearly 50 % of cash generation reflecting the high level of actions delivered on the back of the AXA Wealth and Abbey Life acquisitions. Going forward we expect management actions to contribute approximately one third of annual cash generation. Today we have set a new five year cash generation target of £3.8 billion, and guided to a total of £12 billion of cash generation over the life of the book. Last year, we also talked to total cash generation of £12 billion in 2018 and beyond, but having delivered £0.7 billion of cash during 2018, we would expect total cash generation in 2019 and beyond to reduce to £11.3 billion. The increase in our new guidance is driven by revised cost synergy targets, together with the future cash generation from new business written in 2018, and the inclusion of 2013 management actions. Our cash generation guidance of £12 billion continues to exclude the incremental premiums on in-force policies, new business arising on our UK and European Open business. Management actions post 2023 and any inorganic growth from either BPA or M&A. We therefore hope to do much better.

This slide shows the sources and uses of cash for the combined group over the next five years, and reflects the new target for this period announced today. As you can see, the

uses of cash at the Group level remain small in number, and include the cost of maintaining our head office functions, making pension scheme contributions to the Pearl and Abbey Life pension schemes, servicing the interest on our debt outstanding, and paying a dividend of £338 million per annum. After these uses of cash we are left with an illustrative £1.3billion of cash at the holding companies as at 2023. Over the coming years this accumulation of cash balances will be used to support new BPA deals and future acquisitions that meet our acquisition criteria. To demonstrate the resilience of our five year cash generation target we have set out the sensitivity of this target to various stress events. As you will be aware, Phoenix has a low appetite to market risks and uses hedging to mitigate the majority of its exposure to equity, currency and interest rate risk. This translates into the low sensitivity to these risks we present today. Phoenix's main exposure continues to be to longevity risk on its annuity business.

Here we modeled the impact of every annuitant living six months longer, and even in this unlikely scenario the Group will be able to service its debt obligations and continue to pay a dividend of £338 million per annum. This resilience in our cash generation brings increased certainty to our dividend.

This slide follows on from the earlier one showing the position for the combined Group beyond 2023. The nature of the Standard Life business means that the cash emerges from this business is more back end loaded, significantly extending the profile of the Group's long term cash generation, and therefore the sustainability of our dividends. The solvency position of the group has been significantly strengthened from the 2017 pro forma surplus of £2.5 billion to our 31st December 2018 actual group surplus of £3.2 billion. This increase in surplus translates to a 20 % increase in the shareholder capital coverage ratio, to 167% and demonstrates the increased resilience of the Group. Integral to this increase in surplus are £0.5 billion of Standard Life capital synergies and £0.6 billion of management actions delivered on our legacy Phoenix business. We have also seen the benefit in our solvency position of issuing more capital qualifying debt instruments in the period, than was anticipated in our pro forma figures. The strain of £0.2 billion from new business during the year primarily relates to the cost of writing BPA and vesting annuities. New business written within the UK Open and Europe segments is capital light. The Group recognised a circa £150 million benefit from changes to longevity assumptions, which included moving to the CMI 2017 mortality tables in Phoenix Life. This benefit was more than offset by the impact of strengthening expense risk capital for the Standard Life business and the cost of customer proposition developments and other projects. And despite turbulent equity markets during 2018 we report a small economic variance of £0.2 billion. This is driven by the Group's hedging strategy for equity currency and interest rate risk, which brings resilience to the Group's solvency position. We have introduced a new metric, new business contribution to measure the value generated through new business written each year in the UK Open and European businesses. New business contribution is the increase in Solvency II Own funds arising from new business written, adjusted to exclude risk margin and to remove the contract boundary restrictions of Solvency II. It represents the discounted value of expected future cash flows, from new business written, and we can therefore use it to explain future cash generation. In the full year 2018, acquisition costs of £126 million net of tax were incurred on new business. £280 million of cash generation will therefore emerge from this new business in the future, and we expect 75 % of this future cash generation to arise over the first 15 years of the contract life. Therefore the 2018 new business contribution will emerge at an average of £14 million over cash generation per annum from 2019 to 2034.

As Clive mentioned earlier we used an exhibit called “the wedge” at our Capital Markets

Day, which put forward a hypothesis that the growth of our Open business will offset the run off of our Heritage business, and bring sustainability to our organic cash generation. I wanted to take some time today to share a simple model and assumptions that illustrate this hypothesis. It is important to note that the wedge models a subset of organic cash generation, and not assets under administration. There is therefore no need to be distracted by a discussion around the relative margins of Heritage versus Open business. As the hypothesis we are seeking to prove is that Open growth offsets Heritage run off, our model does not factor in cash generation from the in-force Open business, but simply assumes that this offsets the acquisition costs associated with writing new business. As cash generation from the in-force Open business exceeds acquisition costs, then this is a prudent assumption. We have used 2018 actual results with circa £400 million of organic cash generation from the Heritage business, and £154 million of new business contribution from the Open and European businesses. The model builds up the growth in Open business cash generation from new business contribution, assuming that this will grow at 4 % per annum through a combination of volume growth and margin management. It also assumes that the Heritage business cash generation runs off at 5% per annum. You can see that the cash emerging from successive years of growing Open business offsets the decline in Heritage business cash generation. Now this model is clearly very simple and serves to illustrate our hypotheses only. Our actual five year cash generation target assumes no future new business and therefore includes only the Heritage 2018 New business contribution figures from this model. Our targets also include cash generated from the in-force Open and European businesses, the distribution of free surplus and management actions.

To summarise we see real upside potential in Phoenix in future from delivering growth across its Open business. Our target shareholder capital coverage ratio is 140% to 180%, and the sensitivities set out show that Phoenix remains well within this range under a range of scenarios. If the Group's shareholder capital coverage ratio will have to fall below this target range, we would consider appropriate rectification plans after allowing for surplus emerging and in-train management actions. And if the Group's shareholder capital coverage ratio were to go above this target range, we would consider options for the deployment of capital which could include a potential return of capital to investors.

We have delivered a strong set of IFRS results and reported an operating profit of £708 million. The increase compared to the prior year is primarily driven by the inclusion of the Standard Life Assurance business for the four month period post completion, together with net positive impacts of management actions and longevity assumption changes in 2018. Investment return variances including net positive economic variances on hedging positions held across the group during the year to protect the group's Solvency II surplus position, this represented a reversal of the position reported at the half year 2018. Other non-operating items included a gain on acquisition of £141 million reflecting the excess of fair value of the net assets acquired of the Standard Life Assurance businesses over the consideration paid. Also included in this item are one-off costs from introducing pension caps, but on non- workplace pensions and acquisition costs.

I will now pass you to Andy.

Andy Moss:
Thank you Jim and good morning everyone.

Phoenix are specialists in the safe and efficient management of Heritage business, with a strong track record of delivery. Our UK Heritage business comprises products that are no

longer actively marketed to customers and has £118 billion of assets under administration. Our strategy for our Heritage business is simple, to deliver value to shareholders and customers and to improve customer outcomes. Integral to this is ensuring that our cost base reduces more quickly than our policy count runs off. The Heritage segment results presented here are prepared on a pro forma basis as if Standard Life Assurance businesses had been included for the full year, with the exception of operating profit which includes only the post-acquisition results. Gross outflows of £10.8 billion have been partially offset by inflows of £3.7 billion which included £700 million of vesting annuities and £800 million of BPA. On a purely flows basis, this indicates that our Heritage assets under administration were running off at circa 5 % in 2018. Delivery of management actions continues to be a key focus, and moving forward will work to deliver these across both our Heritage and our Open books, i.e. our total in-force book. We have been clear in our approach to the BPA market. Our target for growth in this area is proportionate, at around £500 million to £1 billion of liabilities per annum.

In 2018, we completed three transactions with total contracted liabilities of £800 million. This represents circa 4 % of the BPA market demonstrating that we are not chasing volumes and will be selective, progressing only value accretive deals. We have invested around £100 million of capital to facilitate these transactions. This represents the day 1 capital strain arising from the assets received and allowing for capital management policy. This investment increases our long term cash generation by around £300 million. The BPA market is growing. £20 billion of BPA was completed in 2018, and we expect volumes in 2019 to be similar. Phoenix is well positioned to benefit from this market growth and generate long term cash flows to support the dividend into the future.

Long term illiquid assets return a higher yield for shareholders and better match the duration of long dated annuity liabilities. We therefore have an active program of sourcing illiquid assets including equity release mortgages, commercial real estate and private placements. At the 31st of December 2018, 20% of our £17 billion of shareholder assets backing annuities, within our non-profit funds were invested in illiquid assets. We continue to target an upper limit of 40% allocation to these asset classes, by originating up to £1 billion of illiquid assets per annum. 2018 was a successful year for Phoenix, with £1.4 billion of illiquid assets sourced. This volume delivered circa £130 million of solvency benefit to the Group. Our ability to compete in the BPA market is heavily influenced by our illiquid assets sourcing capabilities. We continue to see this as a key management action which will also contribute to the Standard Life Assurance transition capital synergy target.

Management actions broadly fall into two categories under Solvency II. Those that increase Solvency II own funds and therefore increase the total quantum of cash flows emerging from the business, and those that reduce capital requirements and hence allow an acceleration of cash that would otherwise have been expected to emerge over time. In total management actions added £570 million to our Solvency II surplus in 2018. A number of our management actions related to the Abbey Life business acquired in 2016. Approval for this business to be included within our Internal Model was followed in the year by notification from the FCA that they had concluded the enforcement action against Abbey, and in December we completed the Part VII transfer into Phoenix Life Ltd. Other actions include the benefit from investment fee reductions and savings arising from our joint investment with outsourcers in the digitalisation of the customer journey.

In 2018 we delivered £500 million of capital synergies in respect to the Standard Life Assurance businesses. This principally consisted of the capital synergies from implementing the Group's equity and currency hedging strategy, but also included benefits

from transferring indemnities within the Group. Today we have increased our capital synergy target to £720 million. This new target reflects the estimated benefit of moving towards Phoenix strategic asset allocation for annuity backing assets and creating a single life company. It is worth noting that we continue to make no estimate for the capital impact of harmonising the Group's two Internal Models which we expect to be capital neutral overall. Although this clearly remains subject to PRA approval.

Across Phoenix we continue to drive forward actions which seek to improve customer outcomes. We remain focused on improving outcomes for with-profit customers by removing uncertainty and risk from the with-profit funds, and continually reviewing fees. We are investing in our online capabilities to connect digitally with as many customers as possible. 80% of Diligenta pension customers can now log on to our digital platform and self-serve. And during 2018 we saw over 40 % of eligible customers taken advantage of our online and encashment functionality. In the first half of 2018 we announce the introduction of fee caps on our Phoenix Life non workplace pensions products. The change will benefit circa 250 thousand policies and reduce the average Phoenix Life ongoing charge for unitised non- workplace pension policies, the 1.1%.

As we can see from the previous slide not only do our management actions focus on delivering value to shareholders, they also look to deliver value to customers and improve customer outcomes. At Phoenix Life, we recognize the importance of a sustainable outsourcing model for customer administration that delivers a digitally enhanced offering to customers and can adapt to change in a fast and cost efficient manner. At our Capital Markets Day in November we announced that we have selected Diligenta to partner with Phoenix for this journey, and as a result will be transferring circa 2 million legacy Phoenix policies to Diligenta by the end of 2021. It will lead to a reduction in per policy administration costs across the legacy Phoenix Book and the £100 million solvency benefit of this management action was recognised in the first half of 2018. Following this transfer Diligenta will administer circa 5.5 million Phoenix policies from a single administration platform. This will deliver an end to end digital journey to 75% of our Phoenix Life customers. I will now pass you to Susan.

Susan McInnes:
Thank you Andy, and good morning. Our capital light UK Open Business is important to Phoenix as it brings additional scale to our operations, and dampens the run off of our Heritage books, therefore extending our dividend paying capabilities. We define Open to be products that are actively marketed to new and existing customers, and we have £85 billion of assets under administration in this segment. It's important to note that these are primarily unitised products which have no guarantees and where the investment risk sits with the customer. Our UK Open business therefore comprises only capital light products.

In the main Open business relates to those products being sold as part of our strategic partnership with Standard Life Aberdeen under the Standard Life Brand. While this is part of the Phoenix Group you will hear me refer to the business using its brand name today. UK Open also includes products aimed at the over 50s market distributed by Sun Life. In terms of strategy, there is very much a shared vision with our Heritage book and we aim to deliver value to shareholders and customers alike. Our strategic partnership which leverages the skills of both organsations is important in supporting that strategy.

The UK Open segment results presented here are prepared on a pro forma basis as if the Standard Life Assurance businesses had been included for the full year, with the exception of operating profit which includes only the post-acquisition results. We will not be

disclosing the margin we charge on our Open business but do provide disclosure of the operating margin achieved in the appendices to this presentation. Gross inflows of £10.7 billion, includes £7.4 billion of inflows on new business. By new business we mean either new or increased premiums on existing policies or new policies entered into during the year. This new business made a contribution of £137 million in the year, and as Jim explained earlier, we view this new business contribution as a proxy to future cash generation.

Net inflows during the year were £3.7 billion and illustrate that on a purely flows basis, our UK Open business, assets and administration were growing at around 4% in 2018. The Standard Life proposition is strong and has competed well in the workplace auto enrolment market with 15 thousand active schemes serving around 1.9 million customers. New business growth inflows of £1.6 billion during the year were driven by auto enrolment increases, new schemes and new customers joining existing schemes. Net inflows in 2018 of £1.8 billion pounds reflects a strong performance for this product which continues to be the engine of customer acquisition to the UK Open business.

When customers change employer, we work hard to retain their business and in 2018 we saw £2.2billion of assets under administration associated with workplace leavers retained by the Standard Life Brand ,and transferred either to our retail pensions business within the Open segment or to the Heritage business. Looking forward we expect the majority of new flows to come from existing schemes. In 2018 over 280 thousand new policies were generated by joiners to existing employer schemes and the increase in auto enrolment minimum contribution levels from 5% to 8% in 2019 will further support our growth. Critical to success in the workplace market is scheme retention. We will continue to invest in the overall proposition to ensure it remains competitive and differentiated. We expect to win new mandates and believe the ongoing market shift towards Master Trust arrangements makes us well placed to win new opportunities.

The retail pensions book is in part built up by the Strategic Partnership with Standard Life Aberdeen selling retail pension products via independent advisors. During 2018 we saw gross inflows of circa £2 billion despite the industry wide slowdown in DB to DC transfers after the high levels experienced in 2017. We also saw a steady flow of customers moving from work place schemes to retail pensions when they change employer. Our aim is for customers to consolidate their other pension pots with us and stay with our products as they enter the decumulation phase of their life. This means we're retaining assets under administration within the Group for the long term. The products themselves have a strong digital and service offering, which is critically important in this marketplace. We expect strong growth inflows in 2019 as our product range makes us well-placed to offer solutions for both accumulation and decumulation.

Wrap has historically been one of the largest growth areas for Standard Life branded products, and 2017 saw historic levels of DB to DC transfers. In 2018 Wrap SIPP delivered £4 billion of gross inflows on new business during the year. Clearly this is a very competitive market but the Standard Life Aberdeen platform remains number one in the market based on both advised gross and net volumes, and it is well placed to grow in the future.

Our European business contains both Open and Heritage products split across Germany and Ireland. And we have £23 billion of assets under administration in this segment. The 2018 results illustrate a self-sustaining nature of this business which provides us with optionality to grow inorganically through both open and closed European life consolidation

in the future. Our Brexit preparations are complete, the group has already injected £250 million of capital into the Standard Life International in readiness for a Part VII transfer of the German and Irish UK branch businesses. The court hearing for this transfer is scheduled for the 19th of March. We are therefore ready for any Brexit scenario.

Across Phoenix we continue to invest in our digital proposition to increase the number of customers who can access the data and transact online. With more than 3 million logins last year our mobile app is now the easiest way for customers to interact with us, when they want. In 2018 we had over 6,000 customers moved into draw down through our digital platform. We had over 8,000 customers who used our telephony guidance service to support them with the retirement options and 2,000 customers and guests attended our highly rated retirement roadshows which ran nationwide. We also monitor our customer service metrics very closely to enable us to drive forward improvements and use a variety of tools to track customer satisfaction. The increase in the scores year on year is evidence that higher levels of customer service continue to improve.

I will now pass you back to Clive.

Clive Bannister:
Thank you Susan. I'm going to wrap up. The Chairman described and opened this presentation by saying that 2018 was a year marked by outstanding strategic delivery and strong financial performance. With this I entirely agree. And therefore it is with optimism that I now turn to Phoenix's future. Phoenix is at an inflection point, as we test whether we can entirely offset the natural runoff of our Heritage business with the growth of our Open business as described by Susan. We believe we are likely to be able to do this for three reasons. First we must retain our existing clients and assets. We will do this by enriching our product offering and by improving the outcomes and experiences of our clients. Second we will attract new customers bringing new assets. This will be achieved through our strategic partnership with Standard Life Aberdeen. And finally we intend to improve our operating profitability. We must have a lean and agile operating model that uses our scale to leverage its buying power with our partners. The prospect of our Open business growth offsetting the run-off of our Heritage business represents a fundamental change for Phoenix as I said in my introduction. Proof of this hypothesis will deliver longer term sustainability to our cash flow, but the future does not stop there. Standard Life was an important milestone on our consolidation journey, but it is not the final destination. Acquisitions including BPA will enable Phoenix to grow cash generation further. We believe that the drivers of consolidation remain compelling. We believe that firms will divest themselves of their capital heavy businesses to consolidators such as Phoenix. The market is clearly in flux and we see a range of future opportunities. And the Phoenix team is eager to get the next transaction across the line. I do not believe funding is an issue. What I've referred to before, much to Jim's regret, is Jim's war chest is circa £1 billion and I have confidence that we have the management bandwidth augmented by our Scottish colleagues to do another deal if necessary immediately. Phoenix has a clear set of priorities for 2019, cash generation is our key metric. We are focused on delivering the £600 to £700 million target 2019 announced today. Our transition program is challenging. We have set ourselves clear management objectives and will deliver against these, because that is what Phoenix does. Across the Group we will drive forward customer initiatives that support new business growth. And finally as I said a moment ago, we are open for business and we'll examine further. M&A and BPA opportunities that meet our stated criteria of being value accretive.

To conclude cash remains king at Phoenix and we estimate at least £12 billion of future

cash generation from our business in-force today. The resilience of Phoenix is evident with our £3.2 billion Solvency II surplus and a Shareholder ratio of 167%. The continued growth of our Open business will offset the Heritage business run-off and there will be growth in BPA and M&A as the UK and European insurance industry consolidates. We are clearly building a more sustainable Phoenix. Thank you very much indeed.

Ladies and gentlemen that brings to an end the formal presentation. Thank you very much for your engagement. I'd like to now move on to Q&A which will be chaired by our Chairman.

Nicholas Lyons:
If you could wait for the microphone to come to you and then announce your name and the institution for whom you work that would be great. I'm also conscious that some of you will be moving on to another results announcement after this. So if you could be a little bit restrained and limit yourself to just two questions. I know how you like to get a barrage in.

Jon Hocking:
Thank you. Good morning Jon Hocking from Morgan Stanley. Two questions please. Firstly, on the new business strain. You talk a little bit about how you're going to balance new business strain given the cash targets you set out. I think Jim alluded to the fact that you see that largely this has been covered off by the existing new business from the back book. But if you had opportunities for example to write a greater volume of bulk annuity for example would you choose the sort of tradeoff between long term cash flow and short term cash flow? That's the first question. And then second question, just in terms of the longevity risk and the sensitivities you give and I wonder if you could elaborate a little bit in terms of what your risk appetite is for longevity and going forward whether you see a role for more reinsurance on that point? Thank you.

Jim McConville:
Okay I think they're both for me. Well first of all turning to Slide 20 which is up on the screen here. You will see the new business strain on this slide which is a negative 0.2 billion. So just a reminder what we said that comprises £101 million from the BPA business that we wrote during the year, which includes the capital management policy amounts related to that business. Roughly £60 billion relating to our vesting annuity businesses and the £40 million balance relates to the Standard Life business, which we've described previously as capital light. I think in the Capital Markets Day we had said we believe that strain to be slightly positive, but once we've run the year end numbers it’s turned out is marginally negative, but fundamentally it is capital light business.

In terms of thinking forward in terms of our use of capital you will have seen from one of the other slides that our cash builds up over the five year period from £0.3 billion to £1.8 billion. So we will be accumulating additional amounts of surplus, through which we will continue to invest that in BPA business and in the Standard Life business, and in supporting future M&A. Now the key thing about thinking about the bulk annuities business is we have used the phrase in the past that we will enter that market on a selective and proportionate basis. And that remains the position. We are always going to fund this BPA business from our own resources, and we have given guidance that we would expect between £500 million and £1billion of liabilities over the course of a year. So the strain from that BPA business will be around £100 million mark on average. And we continue to see that the Standard Life business will have a very minimal capital strain. So we're very comfortable with those new business opportunities that the capital costs are well manageable within the ongoing business as we go forward.

Your second question was around longevity risk and our risk appetite. So roughly about 55 % of our longevity risk is reinsured as at the present time. When we are thinking about BPA deals we are reinsuring a larger proportion of that business. So up to 90 % or so on average, for the new business to do with BPA's. And we continue to keep the overall longevity and risk appetite under review. And if it was necessary we would take action to keep it well within our risk appetite. We do not have any particular issues with our risk appetite at present and I'm very comfortable with the overall position.

Gordon Aitken:
Gordon Aitken from RBC. Couple of questions please. You mentioned that the balance sheet is most sensitive to longevity. I was just wondering what your thoughts are for the 2018 mortality table which should be published soon? And secondly also thoughts on super funds which some are pitching as a threat to bulk annuity writers like yourself?

Jim McConville:
Longevity. So I'll pick up the first one and then Andy or Susan can pick up the funds question.

So where we've moved to today for the Phoenix Life book we have reflected the CMI 2017 tables. And therefore we're up to date with these and we will review the position in relation to the 2018 tables in the second half of this year. Being in accordance with normal practice. We certainly saw positive experience variances come through in 2017 relative to the assumptions at that time, and if that trend were to continue, it's possible we could see further changes, but I think at this stage it's too early to say. Standard Life have a slightly different basis where they use their own bespoke model to calculate their longevity, but when we put them side by side in very broad terms, they are reflective of the 2017 tables as well. So both businesses in broad terms are consistent with the 2017 tables and time will tell whether the 2018 brings a fuller opportunity for a release.

Andy Moss:
But I think on super funds, you are right that there is a potential new competitor there in the BPA market. It's still relatively early days and there is I think quite a lot of water still to pass under the bridge, in terms of really looking at the capital treatment and there's a lot of work going on across the ABI to ensure that we have got comparable capital treatment around super funds. But I would see it is a competitor. I think there are benefits from the capital strength of our life assurance companies to give to those pensioners. So I think there are benefits which we have over them. But I think it is a competitive landscape which we will absolutely have to keep under review.

Clive Bannister:
Greig.

Greig Paterson:
Greig Paterson KBW. One question in terms of your credit risk on slide 17, in terms of the element for default. Previously you said there was a 10 % allowance for default and there is no comment there now, wondering what the allowance for default is under the new sensitivity? And the second point question is to Clive, at the Capital Markets Day, if I remember correctly, you said you speak often to all the potential acquisitions and you think there is the possibility a deal will happen, earlier than later, versus what people expect. I wonder if the probability of a deal since the Capital Market Day, from your conversations has improved or deteriorated.

Jim McConville:
OK. Shall I deal first of all with the credit spread widening on slide 17. So the credit stress here is equivalent to an average 120 bps spread across the ratings. Clearly we apply an different percentage depending on the rating. It comes out an average of 120 % and we allow 10 % of that for a defaults which is consistent with the approach we've taken in previous years.

Clive Bannister:
Greig it's a good question. I'm going to dodge it a little bit so forgive me right now. There are three big tides which are moving forward which we've referred to before. I think I changed the order of those tides. The first was a day giving people pensions freedom in '14 and '15 changed the way clients bought and therefore that changed the maths of big back books. The second was clearly a repricing of capital due to Solvency II in 2016. There in the rear view mirror. The third tide which is happening and it's clearer today than ever before, is the pricing that investors are attaching to different businesses. So you do that, that's not us, that's your industry. But your industry attaches a P/E to wealth management of circa 20, to our industry of around 7 to 8. That is becoming very clear. Therefore where people put their capital is becoming highlighted in the spotlight. If you were managing businesses that combine those two characteristics. So your industry is driving change, and I think that has become a greater force of emphasis than either the A day changes, pension freedoms and indeed the repricing of capital into Solvency II. So that is a systemic change. And I say that has been growing since the Investor Day, the clarity of that. And the third is clearly we have a European capability in Ireland and in Germany which means the breadth of the opportunities geographically is more and more. I'm not learning foreign languages yet but I am certainly seeing opportunities which are Continental. And then finally because we are a bi-ped in terms of our Open capabilities and the Heritage business that gives us a broader breadth as well. There is a depth to the conversation. And as I've said before to just irritate you, it's a bit like London buses, I never predict when anything may or may not occur.

Dominic O'Mahony:
Thank you. Dom O'Mahony Exane BNP Paribas. Two questions. You mentioned auto enrolment as a force driving flows. On my crude understanding of solvency when an individual increases the portion of their income going into the pension, that creates a one off increase in capital generation. But actually because you bake in the assumption over the lifetime, that then falls away. When you think about the growth of the capital generation and cash released from the new business, does that mean that there's any chance of there having been a spike in this year maybe a spike in 2018, maybe a spike in 2019 but that then falls away or you're very comfortable with something like the 4% that you showed us in the in the helpful model? The second is just on the operating model, we talk about the integration of the Phoenix Heritage and Standard Life Aberdeen business. You didn't mention outsourcing in any way - in the past you've always described the partnerships with Diligenta and Capita as being a real source of advantage. Is there a shift in the operating model here that actually you are looking to sustainably manage more of the business internally?

Thank you.

Nicholas Lyons:
Susan do you want to deal with that first question.

Susan McInnes:
So you're absolutely right. We expect those to increase in 2019 as we see the 5 to 8 just as we saw the 3 to 5 last year. We think that accounts for another £200 million of income, and our expectation is that that will continue. We have made an assumption that we will see a slight increase in drop off with the change from 5 to 8 over that 3 to 5. But we do expect that to persist.

Nicholas Lyons:
Clive do you want to answer the second question.

Clive Bannister:
I'm happy to answer the second question. I don't think there's any change. So we've announced £1.22 billion of synergies, two halves. We always thought the biggest synergies would be generated by capital synergies at £720 million. That's what you expect. It's unique to our industry. This is not a manufacturing business so it's not just about cost. It's about capital synergies. That's what a consolidator brings to bear and the internal model et cetera. But of those cost synergies which add up to £650 million we've introduced a new category, £30 million of single one-offs. This is one of the advantages if again if you bring two large businesses together. I mentioned IFRS 17. This is an expensive process for two companies, and we bring it together and we have a single process. So there's a separate category of one-off. We are then left with £620 odd million coming from improved costs management. That is bringing our cost base down from £600 million to £525 million. That is a £75 million target up from £50 million. This is easily doable, I say easily over a three year basis about 12.5%. And you do it in multiple ways. You do it by changing processes, looking at a different target operating model. Looking at the people who do it by weight, by way of natural attrition etc. and we have always believed in a bifurcated capability. Some of the things we manufacture in-house and some of the things we outsource to a variety of outsourcers of whom Diligenta is our preferred strategic provider. And we think that that is not going to change anytime soon. So we will carry on having this bifurcated insource outsource capability. But as we have demonstrated not just last year but in the years before and Andy was very fluent - Diligenta, the relationship we have with them, yields very good value to us and shareholders but more importantly delivers better outcomes in terms of customer service, by way of a digital journey going forward.

Nicholas Lyons:
Thank you Clive. Andrew. You had your hand up earlier.

Andrew Crean:
It is Andrew Crean at Autonomous. One question, one ask if I may, on Europe you've only got £23 billion of assets split between three different businesses. There's an awful lot of private equity sharks out there trying to get into that business as well. What is your timeline? Do you think to be likely to be doing deals and have you considered actually selling back to the private equity and just folding your tent down? And then the request, in terms of the movement in the solvency capital position there was quite a drop in the SCR. I was wondering whether you could give us the movement in your surplus, separated between the available funds and the SCR in the same way that you have to report that to the PRA.

Nicholas Lyons:
Do you want to take the European question?

Clive Bannister:

Yes certainly. So Europe, there is no consideration of divestment. These businesses are accretive. So we have a German business which is not risk bearing. It is a unit linked business and has a Heritage book. There is an offshore amount about £13 billion of that £23 billion. There's about £6 billion in offshore and then the remaining £6 billion is a unit linked, related to Ireland again with a Heritage business. We think that they are for platforms for growth and offer real opportunity. We absolutely recognise Andrew what you've commented. You know Germany, as Mark Twain would say as slow as molasses in winter, the Generali deal which you may be alluding to has taken a long time to get off the block. So I think what we're witnessing Ireland to see more consolidation, so has the Netherlands. Really it's just starting in Germany, and we wish to be a player. Now of course it does come down to value. There is a point when an asset is more valuable to somebody else than it is to us or from whatever we can do with it. Far too early to reach that conclusion and therefore I say categorically these are not businesses available for divestment.

Nicholas Lyons:
Jim you want to pick up the capital.

Jim McConville:
Yes. I mean certainly the SFCR, Andrew will give you a breakdown of the movement in the solvency capital requirement. But it's a reflection largely of a lot of the management actions activity that's taken place during the course of the year.

Nicholas Lyons:
Oliver.

Oliver Steel:
Oliver Steel, Deutsche. Thank you for the wedge modelling page, very useful. Just sort of trying to consider what's in it and what's not in it. And I'm afraid my questions are going to have a slightly negative slant but I do recognise that you've got that you're missing out the bulk annuities and all the rest of it. So one thing that's missing is the run off of the Open book. So you're showing the gross cash flow coming off the new business but you're not showing the loss of cash flow of the old business that's running off. So I wonder how it would look if you included the Open book in there as well? The second question is that the second thing it excludes is management actions. And so you've given guidance I think that management actions will be a third of the total cash flow over the next five years out to 2023. But given the size of your business now, and the linkage of those management actions to acquisitions, how confident do you feel about sustaining a third of cash flow from management actions beyond 2023.

Jim McConville:
I think that these are for me so I was wondering when we'd get round to “the wedge”, Oliver, so thank you very much. So let's be very clear, so there's a slide 22. What this excludes. So the number shown here for the new business contribution, are the new business contributions associated with the Standard Life deal and exclude therefore BPA, exclude any future M&A and exclude management actions. So they are absolutely excluded. What I also said in my talk was that we've assumed for the purposes of this model that the in-force run-off from the Open business would more than cover the acquisition costs, and we've not shown these numbers here. But there is an upside from that. And that you would do if you modeled the entire thing. But what we are simply trying to demonstrate in this very simple model is that run off from the Heritage book is offset largely by the growth in the new business contribution. If you believe those assumptions

that I've set out here. And I think that chart demonstrates that. So if I gave you the whole answer I'd just been making your life far too easy.

Oh sorry. Yes on the confidence in terms of the management actions. And so we've described in the past the hopper approach we use for management actions, and that we continually review that and it's a very dynamic process. That remains, we're now incorporating the Standard Life business into that same process and as we stand today we see a very healthy pipeline of management actions. And if you recall we went as the Old Phoenix for many years without a deal. But we were still able to deliver a very substantial proportion of management actions over that period and we certainly see today the same confidence going forward into the future of being able to deliver a constant stream of management actions.

Clive Bannister:
Chairman, may I just say to help Oliver, I look at the £3.8 billion. So in the last eight years we've never set a number which we haven't met or exceeded. You start if you build the sandwich of the £3.8 billion, you start with £800 million of free life surplus which emerges, £1.8 billion of cash which will come out of Heritage and then its £1.2 billion, I think you said £1.8 billion of management actions. So do we believe over the next five years we can do £1.2 billion of management actions of either acceleration or adding to Solvency II own funds - absolutely.

Steven Haywood:
Good morning it's Steven Haywood from HSBC. Following up on the wedge, have you taken into consideration any market return assumptions in this? And secondly your £250 million Brexit capital injection, can this be released if a soft Brexit occurs? Thank you.

Jim McConville:
The Brexit capital injection has gone in to the Irish subsidiary. If Brexit were not to happen and therefore we did not need to go forward with Part VII, and so on, we would have the ability to take that capital back out of that Irish subsidiary. That would involve a capital reduction process and we've done lots of those types of processes so they are familiar to us, but it would require that process. And in terms of the returns they're based on the risk free rates.

Andrew Sinclair:
Thanks it's Andy Sinclair from Bank of America Merrill Lynch and can I say I wish more companies I cover could report negative goodwill on their acquisitions.

So two for me. Firstly I just wondered if you could remind me a bit more about your equity hedging strategies. What instruments do you use? What would the impact be on equity market increases on your cash generation forecasts? Guidance sorry. And secondly just on the free surplus in the life company that increased pretty nicely up to up to a £1.0 billion pounds and I think increased by £0.2 billion pro forma in the year. I just wondered on ability to upstream that. Does that give you any potential upside risk to the war chest? Thanks

Jim McConville:
Okay well thank you for your comments about the negative goodwill. On the equity hedging, we have commented in the past about an approach to equity hedging in that we don't fundamentally see that as a risk, that is rewarded to us. So we have historically hedged a very significant proportion of the annual management charges that come out of

the book and that continues to be the case. At Phoenix, the level was about 90 % of the risk was hedged. Within Standard Life we have got about 75% of that risk hedged as we stand today. We have used a combination of options and futures which tend to roll forward on a two year basis and we have recognised in setting our targets going forward in the future and in our plans that we would have a certain amount of costs related to the options. And in terms of the free surplus I mean that is if you were to run that free surplus is available for distribution today. So technically you could run that down to a pound if we chose to do so. Now clearly I don't think we'd ever like to run as close to the wire as that. Andy to my left here would get slightly nervous, but there is no restriction technically on that distribution.

Ming Zhu:
Ming Zhu from Panmure Gordon. Two questions please. First is from Slide 8. You stated £850 to £950 Million cash generation for 2019. Is that a sort of standard that annual number? Because if I time that figure by 5 and deduct the £250 million Brexit cost I would be looking at a minimum £4 billion to £4.5 billion cash generation for the next five years. And how does that tie back to the £3.8 billion you've indicated or have you been conservative as usual? And my second question is on dividend and you've only increased the dividend when you've done deals. I mean you talk about growth and how resilient your cash is and your confidence in management actions. Where would you review your dividend policy to a progressive dividend policy, because you are now in the FTSE100, realistically would people really buy into your shares if you got no dividend growth outlook or are you only going to increase the dividend when you do an M&A?

Jim McConville:
So I will take that. So slide 5, sorry slide 8, what you see there £850 to £950. That assumes that we hadn't put any money into Standard Life International, and clearly that £250 is a one off. If you then strip that out you get down to the range we're talking about for 2019, which is obviously after the Standard Life deal. The average over the five years I think is about £775 million. Because of the timing of management actions it can be lumpy, it doesn't come necessarily in even streams. So I think all you're seeing is in 2019 we are predicting more management actions than we are in the later years. That is usually quite normal because you have more sight obviously of the nearer term actions as you go forward. But overall it's an average of about £775 million. I don't think it’s for me to comment on the dividend I think.

Clive Bannister:
I think it's above my pay grade. I think it's the Chairman and it's the Board. Our dividend policy remains absolutely stable and sustainable, says what it does on the tin. We have raised our dividend three times in the last three years. Plus 12 % since 2016. We have on each occasion raised the dividend when we have done a transaction. Your question said would we only raise the dividend when we do a transaction. I don't think it is exclusively that, Jim has already described on another slide, were we to get north of 180 % SCR, then we might consider a distribution. As I think he also said very clearly, we believe that there are ways we can deploy the capital very effectively on behalf of our shareholders and that's where we stand at the moment.

Ashik Musaddi:
Hi good morning. Ashik Musaddi from JP Morgan. Just a couple of questions. One is clarification and one is a question on M&A. If I think about your war chest you are flagging about a billion at the moment but is it fair to say that this billion would be say a couple of billion in five years’ time because you're accumulating cash from £0.3 billion to £1.3 billion

over the next five years. So £1.0 billion is the number today and every year it goes up because you're accumulating cash in case there is no deal in between. So that's my first clarification I'm looking for. The second one is, Clive you remember you always had a clear M&A criteria, that dividend has to go up, leverage has to come down, cash flows has to go up. Any thoughts on that? I mean are there any strict criteria as rules at the moment, because one thing is that if you do a deal now probably it will be a bit more levered deal compared to what you put in from the business. Any thoughts on that. Those criteria would be great. Thank you.

Jim McConville:
Okay so let me pick up the war chest question first. So Jim's war chest, I don't think is quite mine, I'll have a word with the remuneration committee shortly. So the war chest is quite simply recognising the fact that at the present time we have leverage at 22% on a Fitch basis. And as you know we have a target range of 25 to 30 %. So if we took that leverage up to 30 % we would have funds available of around £1 billion without going back to equity shareholders for funding for a deal. We do see accumulating cash over that five year period as you say from £0.3 billion to £1.3 billion that will be reflected in improving surplus. But out of that we would be paying the capital for our future BPA deals which we've guided you to up to about £100 million per annum, plus the small strain on the Standard Life new business. So not all of it would translate itself necessarily into an addition of the war chest, but there would be a reasonable proportion of it.

Clive Bannister:
Ashik, you ask the question whether we would change the criteria by which we would look at future acquisitions, and I think the answer is no. Why? Because it served us well in the past. There are three criteria. The first is - are deals cash accretive can we show that day one. You can do that in two ways, we showed that with the Standard Life Assurance deal, it brought £5.5 billion of cash, we could raise the dividend and we paid 84% so it was accretive. The second one is - does it support the dividend? So that we understand that if we raise equity we have to repay those who give us their money. We are stewards of their money and we deploy that. And that's what we did by the dividend increases. And then finally it's to protect our investment grade rating. So we're trading on a Fitch rating of between 25 and 30 percent. We're currently below that at 22 %. That is one of the key components that gives us the capacity for Jim's war chest of a £1 billion on the current size of our balance sheet that would take us back to the top end of 30 %. And I think that's very clear guidance. It is a sober way of approaching deals. I think the deals are always different in shape. So you say going forward they may look, it's not an unfair comment to make, each deals have been a different shape and size. AXA was very front end loaded in terms of cash release. SLAL is much more back end loaded. And if you look in the German or Dutch or Irish market again they are very different. So to answer your question no we're not changing them because I think they've served us well to date.

Nicholas Lyons:
Any other questions.

Clive Bannister:
On the wires. Okay.

Questioner: Yes. So Ebrahim Saeed from Deutsche Bank is asking about our debt issuance plans for the year, and whether we would need to issue debt to meet our £500 million to £1 billion BPA target.

Very simple. So we never discuss debt issuance period. But on the question would we have to do something? As Jim said our BPA and our target is somewhere around £750 billion to £1 billion of liabilities circa 3 to 4 % of the current market size, proportionate selective as we've said before funded from our own resources. Thus as we showed on the slide £100 million capital strain on exactly the same will pertain this year.

Nicholas Lyons:
Anything else from the Internet or the phone or anything else in the room.

If not I would just thank you again for your interest and your support and your time very, very much appreciated. We're going to get back to work to deliver what we've promised.

Thank you.

Clive Bannister:
Thank you very much.