



PHOENIX GROUP

Proposed acquisition of Abbey Life

28 September 2016

Agenda

Overview

Clive Bannister | Group Chief Executive

Financial benefits

Jim McConville | Group Finance Director

Conclusion and Q&A

Clive Bannister | Group Chief Executive



Overview

Clive Bannister

The £935 million acquisition of Abbey Life reinforces Phoenix's position as the UK's leading closed life fund consolidator

Key benefits of the acquisition



Attractive acquisition price



Significant increase in long term cash generation



Strengthens Group solvency



Modest immediate reduction in Fitch leverage metric



Proposed further 5% equivalent increase in dividend – overall 10% uplift including impact of AXA acquisition⁽¹⁾



Clear benefits for Abbey Life policyholders

(1) For dividend per share increase, based on position post rights issue based on closing share price of 838.5p on 27 September.

Overview of Abbey Life

Key metrics

Assets under Management	£10bn
Policyholders	735,000
Employees	45
Solvency II Own Funds (Abbey Life Standard Formula basis – HY16)	£1,047m
Market Consistent Embedded Value (Abbey Life basis – FY15)	£1,218m

Unit-linked

- UK unit-linked life and pensions business
- Over £7.3 billion of assets under management and c.457,000 policyholders
- Closed to new retail business since 2000

Non-linked

- Predominantly annuities-in-payment
- £2.5 billion of assets under management and c.270,000 policyholders
- Over 80% of longevity risk reinsured

Corporate / other

- Five pensions de-risking transactions and a structured reinsurance transaction since 2010, with more than 90% of the risk being reinsured to third parties
- Two small with-profit funds and other non-profit funds with assets under management of £0.5 billion

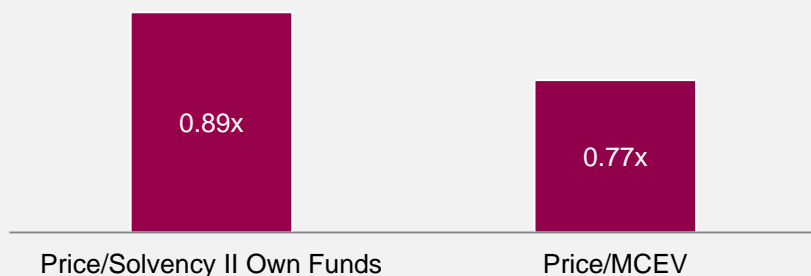
Standalone closed book with policy administration outsourced to Capita

Attractive pricing and efficient financing structure

Pricing and valuation

- Price of £935 million⁽¹⁾
- Abbey Life acquisition expected to generate £1.6 billion of cashflows in total
- Contractual protection in place for FCA investigations

Valuation metrics⁽²⁾



(1) Consideration subject to adjustments at completion

(2) Valuation metrics based on financials as per Abbey Life basis, before impact of management actions. Solvency II Own Funds as at 30 June 2016, MCEV as at 31 December 2015

Funding structure

- Cash consideration and estimated expenses to be financed with a mix of new equity and debt
- Fully underwritten rights issue to raise £735 million at an issue price of 508p
- New debt facility of £250 million at an initial margin of 85bps
- Expected modest immediate reduction in Fitch leverage metric reinforces investment grade rating

This acquisition meets all of Phoenix's M&A criteria

UK closed life focus	<ul style="list-style-type: none">✓ UK closed life fund business with £10 billion of assets and 735,000 policyholders✓ Confirms Phoenix's position as leading UK closed life fund consolidator
Value accretive	<ul style="list-style-type: none">✓ Capital and cost synergies✓ Total expected cashflow generation of £1.6 billion✓ Cash generation of £0.5 billion between 2016-2020
Supports the dividend	<ul style="list-style-type: none">✓ Uplift of 5% in interim 2017 dividend in addition to existing proposed 5% increase from AXA acquisition⁽¹⁾✓ Cashflow profile supports stable and sustainable dividend policy
Maintains investment grade rating	<ul style="list-style-type: none">✓ Expected modest immediate reduction in Fitch Ratings leverage ratio✓ Solvency II coverage ratio increase from 144% to 151%⁽²⁾

(1) For dividend per share increase, based on position post rights issue based on closing share price of 838.5p on 27 September

(2) Based on a pro forma position for Phoenix and Abbey Life. Excludes the impact of the AXA acquisition, which is expected to increase the Group's Shareholder Capital coverage ratio by 2 percentage points

Standalone business expected to lead to straightforward integration alongside AXA

Current status of AXA acquisition		Abbey Life integration	
Timeline	<ul style="list-style-type: none"> ✓ On track to complete in November, subject to regulatory approvals 	Separation	<ul style="list-style-type: none"> ✓ Standalone business with 45 employees ✓ Few separation issues from Deutsche Bank envisaged
Cashflow	<ul style="list-style-type: none"> ✓ Cashflow expectations remain unchanged ✓ £250 million expected within 6 months of completion 	Governance model	<ul style="list-style-type: none"> ✓ Application of Phoenix's governance and customer model is part of integration
Integration	<ul style="list-style-type: none"> ✓ Planned integration of operations within Phoenix and its outsourcing partners 	Outsourcing	<ul style="list-style-type: none"> ✓ Outsourcing model further simplifies integration
Regulatory approvals	<ul style="list-style-type: none"> ✓ Regulatory approvals progressing as anticipated 	Capita	<ul style="list-style-type: none"> ✓ Capita will be retained as outsourcing partner



Financial benefits

Jim McConville

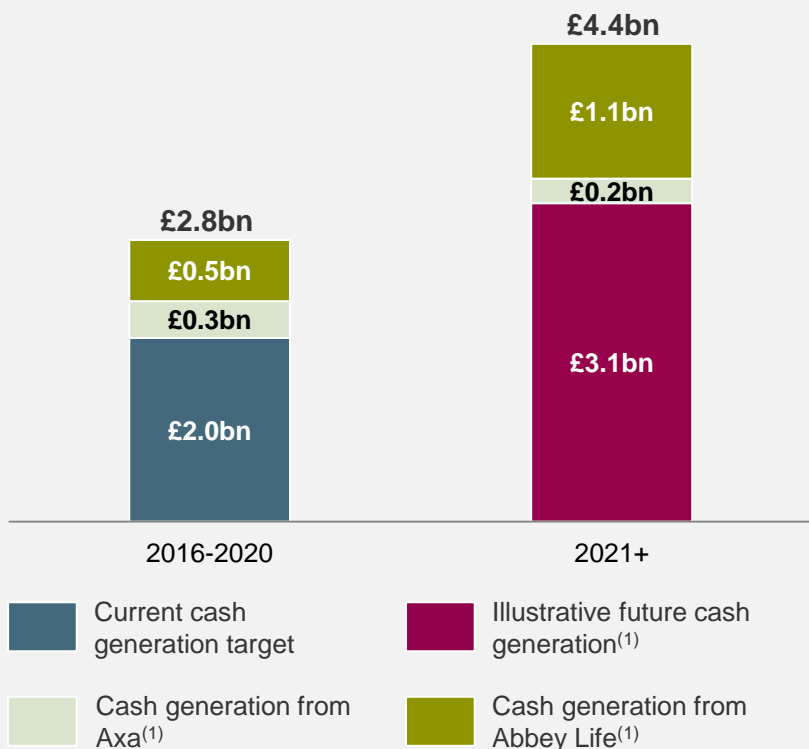
The AXA and Abbey Life acquisitions create a business with £74 billion of assets and over 6 million policyholders

	Phoenix	AXA	Abbey Life	Combined
Cash generation (2016-2020)	£2.0bn	£0.3bn	£0.5bn	£2.8bn
Cash generation (2021+)	£3.1bn	£0.2bn	£1.1bn	£4.4bn
Life company assets	£52bn	£12bn	£10bn	£74bn
Policyholders	4.5m	0.9m	0.7m	6.1m

Notes: Phoenix position based on HY16 position. AXA position as per announcement on 27 May 2016. Abbey Life position based on FY15 position.

The acquisition provides a significant uplift to the Group's cashflows

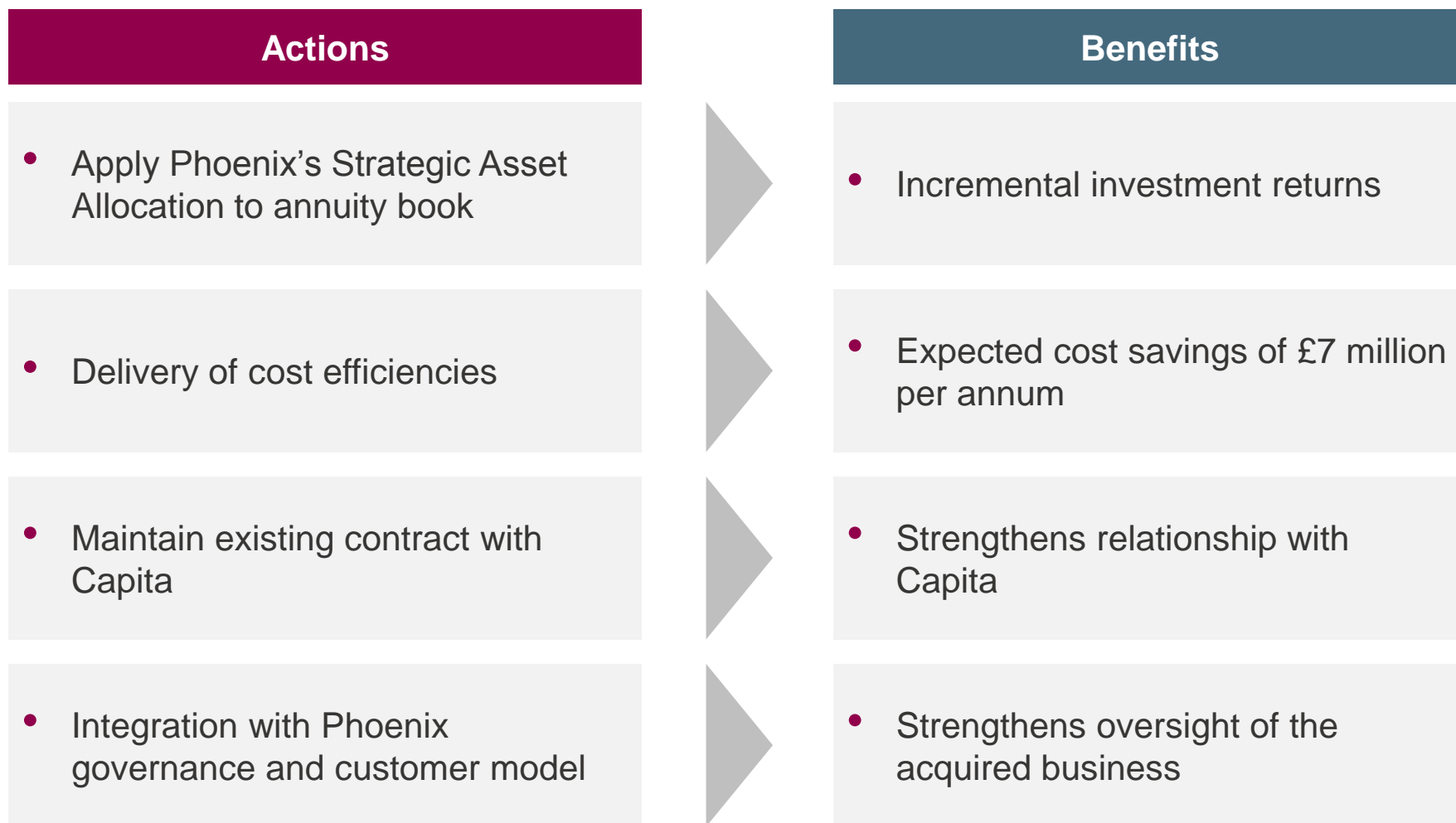
Future cash generation



- Cashflow of £1.6 billion expected to be generated from Abbey Life
- £0.5 billion cashflow between 2016-2020
- Stable and sustainable cashflows post 2021, with scope for incremental management actions
- Supportive of planned onshoring process and possible subordinated debt issuance

Notes: (1) Excluding any management actions from 2021

Management actions to support cash generation

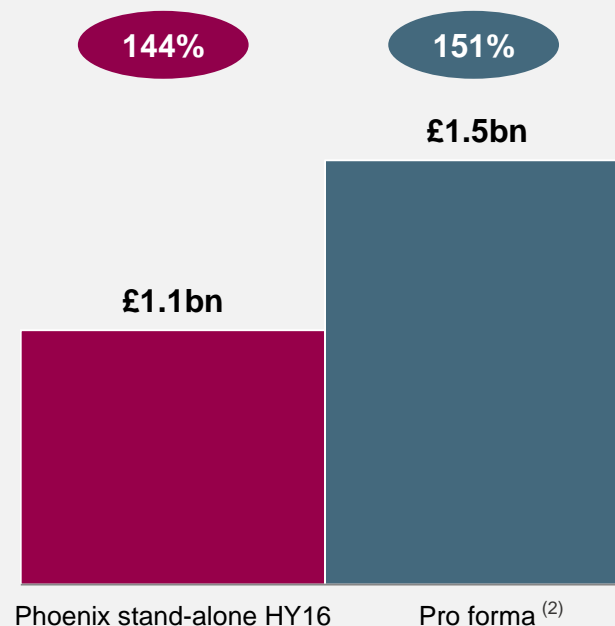


Abbey Life acquisition will increase Solvency II surplus by £0.4 billion

Capital position

- Abbey Life currently on Standard Formula
- Phoenix to apply for Internal Model approval and Transitional Measures in H2 2017
- Future synergies from adoption of Phoenix's asset strategy to annuity book and matching adjustment measures, subject to regulatory approval
- Phoenix will apply hedging strategies to protect capital position

Solvency II surplus⁽¹⁾



Notes: (1) Solvency II surplus and Shareholder Capital coverage ratio calculated at Phoenix Life Holdings Limited

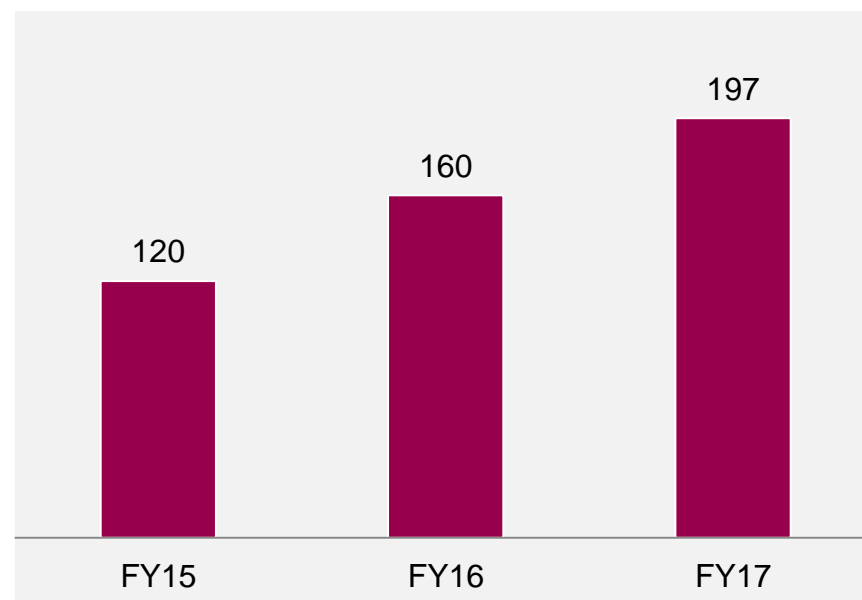
(2) Pro forma position assumes Abbey Life Solvency II position based on Standard Formula as at FY15, before impact of management actions. Excludes the impact of the AXA acquisition, which is expected to increase the Group's Solvency II surplus by approximately £0.1 billion and the Group's Shareholder Capital coverage ratio by 2 percentage points

Further increase of dividend to new stable and sustainable level

Dividend policy

- Proposed 5% equivalent increase in dividend per share from each of AXA and Abbey Life acquisitions⁽¹⁾
- Results in total increase of 10% from 2015 level⁽¹⁾
- Dividend policy, having been rebased following acquisitions, remains “stable and sustainable”

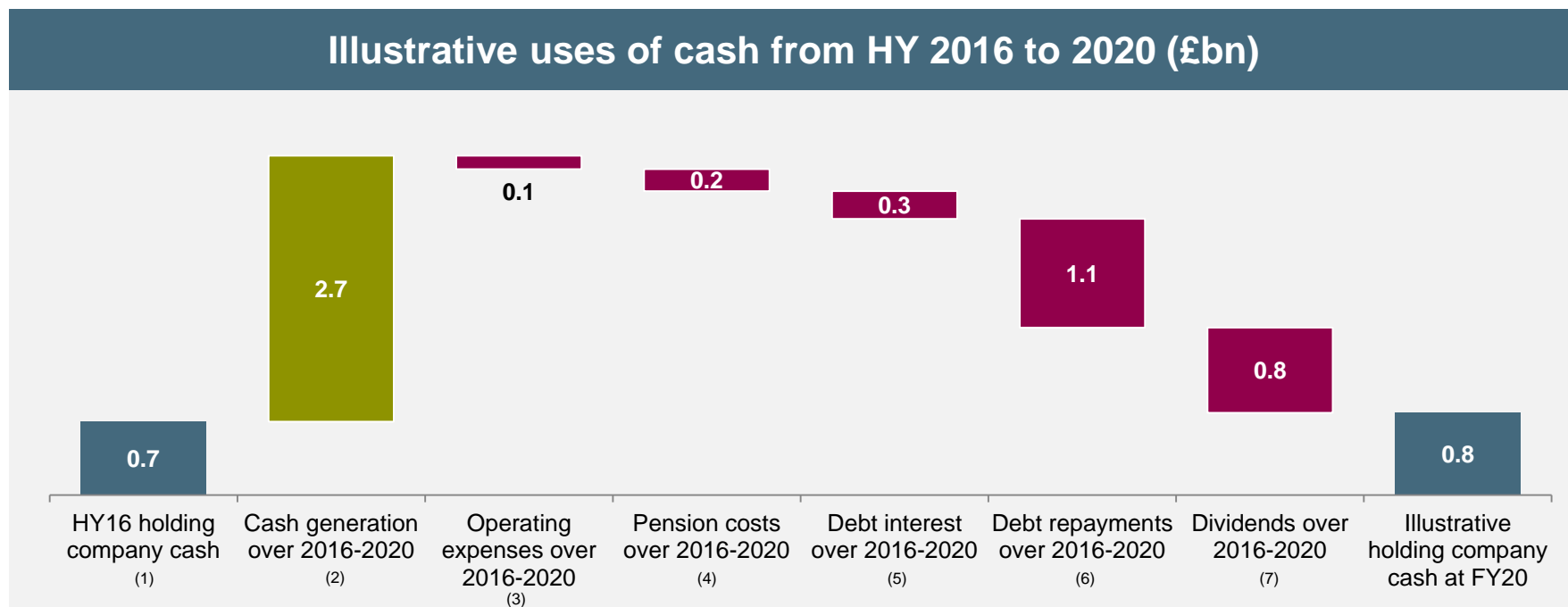
Dividend distributions (£m)



Dividends in respect of 2015		Dividends in respect of 2016		Dividends in respect of 2017	
Interim 2015 (paid Oct '15)	Final 2015 (paid May '16)	Interim 2016 (paid Oct '16)	Final 2016 (paid May '17)	Interim 2017 (paid Oct '17)	Final 2017 (paid May '18)
£60m	£60m	£66m	£94m	£99m	£99m

Notes: (1) Based on position post rights issue based on closing share price of 838.5p on 27 September

Dividend supported by additional cashflows up to 2020 and beyond



(1) HY16 holding company cash of £921m, less £190m net proceeds from equity raising to finance AXA acquisition

(2) Current £2.0bn 2016-2020 cash generation target, less £147m generated in HY16, plus expected cashflows of £0.3bn from acquisition of AXA and additional £0.5bn from acquisition of Abbey Life

(3) Illustrative operating expenses of £30m per annum over H2 2016 to 2020

(4) Pension scheme contributions estimated in line with current funding agreements. Comprising £40m p.a. from 2016 to 2020 in respect of the Pearl scheme and £7.5m in H2 2016 and £10m in 2017 in respect of the PGL scheme

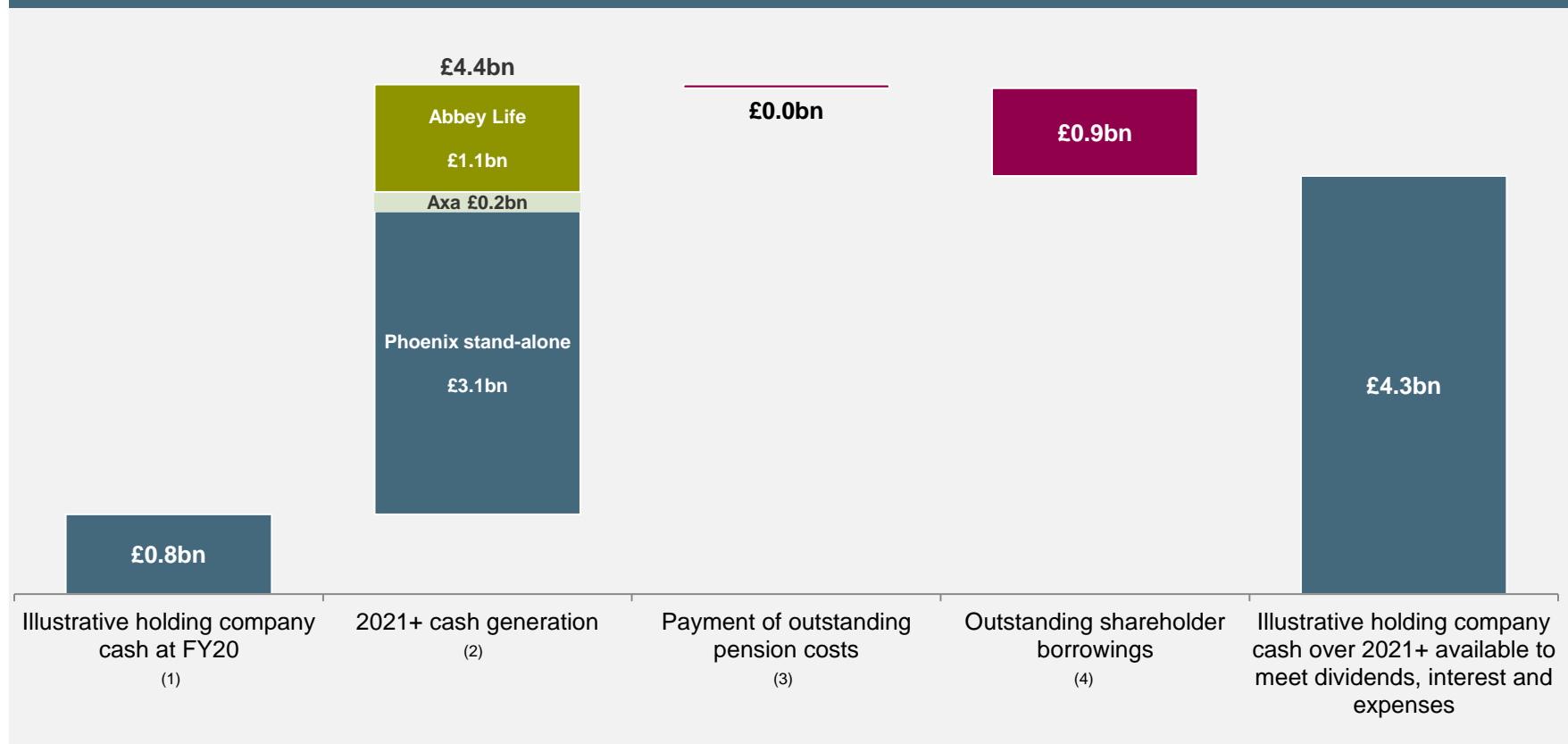
(5) Bank revolving credit facility interest costs estimated using average rate of 2.28% per annum over the period H2 2016 to 2020 (calculated using the interpolated 4 year mid-swap rate plus current bank facility margin of 1.75%). Includes interest on the Group's listed bonds, excluding interest on PLL Tier 2 bonds which are incurred directly by Phoenix Life Limited. Assumes interest on new AXA and Abbey Life acquisition facilities is not material

(6) Assumes full repayment of AXA acquisition debt facility of approximately £185m, repayment of the Abbey Life debt facility of approximately £250m and repayment of £650m revolving credit facility which has a maturity date of June 2020.

(7) Illustrative dividend assumed at cost of £66m in H2 2016, £192m in 2017 and £197m per annum over 2018 to 2020

Beyond 2020, there is an expected £4.4 billion of cashflows to emerge, before management actions

Illustrative uses of cash from 2021 onwards



- Notes:
- (1) Illustrative holding company cash as at FY20 as calculated on previous slide
 - (2) An estimated £4.4 billion cash generation to be extracted from the business after 2020 (excluding any management actions)
 - (3) £40 million pension contributions due on Pearl scheme in 2021
 - (4) Total shareholder borrowings at 30 June 2016 less repayment assumed between 2016-2020 (see previous slide)

Protection in place against potential outcomes from FCA investigations

Key Terms of Contractual Protection

- Market standard warranties and indemnities in place
- In addition, £175 million indemnity protection to cover potential outcomes from:
 - Thematic review relating to the treatment of long-standing customers
 - Thematic review relating to annuity sales practices
- Risk sharing in place for redress costs and associated fees
 - No risk sharing for potential fines
- Long-dated
 - 6 years for long-standing customer investigation
 - 8 years for annuity sales investigation
- Joint governance programme agreed for redress implementation

Phoenix will apply its customer model and product governance to Abbey Life's business

Clear benefits for policyholders

- Abbey Life policyholders will become part of a focused closed life fund specialist with over 6 million customers
- Phoenix Life has a clear customer strategy with a strong emphasis on the fair treatment of customers
- Phoenix will apply its customer model and product governance to Abbey Life, providing additional expertise
- Well-resourced customer team will focus on improving policyholder outcomes

Expected timing

Milestones	Timeline
<ul style="list-style-type: none">• Abbey Life acquisition announced	28 September
<ul style="list-style-type: none">• Expected publication of prospectus and circular	Early October
<ul style="list-style-type: none">• Expected shareholder vote and rights issue	By end October
<ul style="list-style-type: none">• Target closing of AXA acquisition, subject to regulatory approvals	November
<ul style="list-style-type: none">• Target closing of Abbey Life acquisition, subject to regulatory approvals	Year end 2016



Conclusion and Q&A

Clive Bannister

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Key benefits of the acquisition



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Proposed further 5% equivalent increase in dividend – overall 10% uplift including impact of AXA acquisition⁽¹⁾



Clear benefits for Abbey Life policyholders

(1) For dividend per share increase, based on position post rights issue based on closing share price of 838.5p on 27 September.

The proposed AXA and Abbey Life acquisitions will create a business with £74 billion of assets, £7.2 billion of cash generation and over 6 million policyholders. A transformed Phoenix

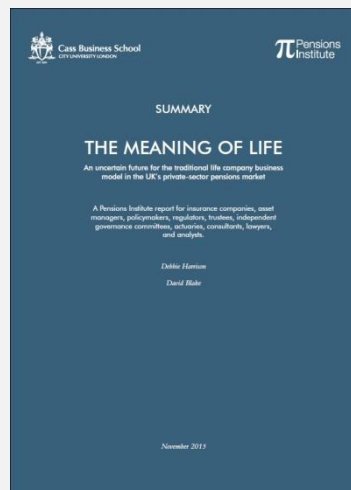
	Phoenix	AXA	Abbey Life	Combined	YoY change %
Cash generation (2016+)	£5.1bn	£0.5bn	£1.6bn	£7.2bn	+41%
Life company assets	£52bn	£12bn	£10bn	£74bn	+42%
Policyholders	4.5m	0.9m	0.7m	6.1m	+36%

Notes: Phoenix position based on HY16 position. AXA position as per announcement on 27 May 2016. Abbey Life position based on FY15 position.

Phoenix is well positioned to lead further industry consolidation

Conclusions of the “Meaning of Life”

- Pension assets to be dominated by 5-7 providers
- Mid-tier, traditional providers under greatest pressure
- Skills shortage, in particular for with-profits
- Likely consolidation of industry by 2020
- Expected surge in sales of legacy back books



Key drivers for consolidation

Trapped capital within legacy books

Fixed cost pressure from policy run-off

Regulatory pressure to invest in systems

Specialist skill sets required

Low interest rate environment

Capital requirements of writing new business



Q&A



Appendix

Expected debt structure following AXA and Abbey Life acquisitions

Instrument	Issuer/borrower	Face value	Maturity
Unsecured Revolving Credit Facility (L+175bps) ⁽³⁾	PGH Capital PLC	£650m	June 2020
Unsecured senior bond (5.75%)	PGH Capital PLC	£300m	July 2021
Subordinated notes (6.625%)	PGH Capital PLC	£428m ⁽¹⁾	December 2025
Subordinated debt (7.25%)	Phoenix Life Limited	£200m	March 2021 (first call date)
AXA acquisition facility (L+85bps) ⁽⁴⁾	PGH Capital PLC	Up to £220m ⁽²⁾	Initially, 12 months post closing
Abbey Life acquisition facility (L+85bps) ⁽⁴⁾	PGH Capital PLC	Up to £250m	Initially, 12 months post closing

Note: (1) Includes internal holdings of £32m

(2) Expected funding for AXA acquisition to be approximately £185m as per announcement on 27 May 2016

(3) Includes utilisation fee

(4) Margin step-ups every 6 months

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