Phoenix Group plc Capital Markets Day
Cash, Resilience, Growth
11.00 am Thursday 28 November 2019

Nicholas Lyons
Chairman

Okay, well let's get started and a very warm welcome to you all, lovely to see so many of you here. So many familiar faces and one or two new ones. We have not only equity analysts and advisors, but investors both of shares and bonds and many friends of the Company too. So it is great to have you all here and a welcome back to Trinity Square. I was asked a question by Graham to see if I had any influence in the choice of this location because one of the things that I do in the City of London is I am the Alderman for the Ward of Tower in which we are now resident here. But I can assure you in the interests of full disclosure that I had nothing to do with the booking of this venue. We just regard it is as great location and one with a rich history in insurance.

So as we have said before Phoenix is Europe's largest life and pensions consolidator. It has an in-force business comprising 10 million policies and £245 billion of assets under administration. It spans Heritage and Open products and has operations in the UK, Germany and Ireland. The key attributes of our in-force business continue to be cash and resilience. What is new to the Phoenix story is the range of growth opportunities it has across its Heritage and Open businesses to bring importantly sustainability to cash generation.

This morning we announced a trading update setting out how we continue to deliver against our 2019 strategic objectives. 2019 cash generation is complete and at £707 million exceeded the upper end of the target range. We continue to demonstrate resilience. Long-term interest rates fell by 47 basis points in the third quarter, but our Solvency II surplus was unchanged at £3 billion and at 156% our solvency ratio remains in the middle of our target range of 140-180%.

Finally, new business written during 2019 has generated £440 million of long-term cash generation. This cash generation is incremental to our £12 billion guidance and enhances the sustainability of the dividend.

Turning now to the agenda. The formal part of our day will run until about 1pm. Our management team will take you through each of the core elements of our business model and explain the foundations that allow us to deliver cash, resilience and growth. Their presentation will be followed with time for your questions. We will then break for lunch when you are invited not only with our presenters, but also with subject matter experts from their teams. Please look out for the pop-up banners and use the handouts confirming who is available to you for further questions.

But let me now pass you over to Andy Moss to talk about the management of our in-force business. Andy.

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

Thank you Nick and good morning everyone. Phoenix has a well diversified in-force Business which spans a wide range of Heritage and Open products in the UK, Germany and Ireland. The mix of business we have reflects two decades of consolidation which has brought over 100 legacy brands under the Phoenix umbrella.

The strategy for our in-force business is the same irrespective of whether the business is Heritage or Open, we aim to deliver value to shareholders and customers and improve customer outcomes. Our in-force business has two key attributes that we will talk about today, cash and resilience.

Phoenix's in-force business produces long-term predictable cash generation. "Cash is king" at Phoenix and the cash generated by our Life companies and remitted to Group is our key performance metric. The dependable nature of cash generation from our in-force business allows us to set both short-term, (being one year) and medium term, (being five year), cash generation targets. We also provide guidance on the cash that will come from the business over its lifetime. This guidance excludes any cash generation from growing either our Heritage or Open businesses or from future M&A and we only include management actions in the first five years.

We are extremely proud of our track record of meeting or exceeding all cash generation targets since 2010 and have extended this track record with today's announcement of the 2019 cash generation numbers.

Cash generation is the remittance of free surplus of our Life companies to Group. Free surplus represents the excess of owned funds over both the regulatory risk capital that is calculated to withstand a 1-in-200 year event. And an additional buffer or "capital policy" set by management in accordance

with our risk appetite. We report each period on the Life company free surplus and as at the 30th September it was £1.0 billion.

The majority of our cash generation comes from the emergence of surplus as our in-force business runs off over time and capital unwinds. We call this "organic" cash generation. However at Phoenix we also deliver management actions which increase free surplus and therefore enhance this organic cash generation. Management actions can either increase Own Funds and therefore increase the overall cash flows from the business or reduce risk capital and therefore accelerate the timing of cash flows.

We have a strong track record of delivering management actions which have contributed £2.5 billion of cash generation in the last decade. Cash generation from management actions is lumpy and we typically see an increased amount of management actions following on from an acquisition. On average management actions comprise about one third of our cash generation over the long-term. Whilst it does vary year-on-year, in recent years we have typically seen management actions split broadly 50:50 between the actions that increase Own Funds and those that decrease risk capital.

Historical management actions include a wide range of innovative solutions designed to deliver additional value to both shareholders and customers. We have increased Own Funds and therefore increased overall cash flows by delivering cost efficiencies across all areas of our operating model and by achieving better returns on the assets under our management. Phoenix has a low appetite for risks like equity, currency, interest rate and longevity. Reducing our exposure to these risks through hedging and reinsurance reduces the risk capital of the Group and accelerates the release of cash. We have also embedded a single approach to capital management across all acquired businesses, enabling us to maximise the diversification benefit and capital efficiency of the in-force business.

We identify management actions across four main buckets: operational management, restructuring, risk management and effective partnerships. Using this framework, we have identified a strong pipeline of management actions which we expect to contribute one third of our 5 year cash generation target of £3.8 billion. Integral to this is the ongoing delivery of cost and capital synergies associated with the transition of the acquired Standard Life Assurance business. We continue to place no value on the benefit of harmonising the two internal models of the group, but recognise it as a key action for management to complete in 2020. Cost synergies will not conclude with the transition programme. We will work further to assess further synergy benefits across the Group cost base through ongoing transformation.

In addition we will continue to generate value by investing in higher yielding assets to back our long dated annuity liabilities and have identified a range of actions that will optimise our solvency balance sheet and access capital benefits through fund restructuring.

Whilst our targets only place an estimate on the management actions that we will deliver over the next five years, we expect there to be opportunities for management actions over the life of our in-force business. New opportunities arise for management actions as our environment changes. Future M&A is an obvious example of an opportunity for cost and capital synergies, but we also see regulatory change, digitalisation and our macroeconomic environment as potential sources of value generation. Whilst some companies may see such change as a threat to their business model, we view change as an opportunity to deliver additional value from our in-force business.

As I mentioned earlier, cash generation is remitted from Life company free surplus. Phoenix therefore operates a risk management framework aimed at bringing resilience to free surplus and certainty to cash generation. Free surplus is the excess of Own Funds over both the regulatory risk capital and the capital management policy that management set in accordance with an "all risk" combined scenario. To protect free surplus, the Board sets an appetite for the maximum impact that changes in risks should have on the quantum of free surplus. Risk appetite is typically set at a 1 in 10 year level and management action is taken to ensure that actual risk exposure is managed to within that appetite.

To achieve this, we operate a continuous risk management process at Phoenix. The process begins by identifying and understanding the risks faced by the business. We manage our exposure to each risk to remain within risk appetite through a combination of asset liability matching and risk reduction actions like hedging and reinsurance. Finally, we conduct extensive stress and scenario testing to gain insight into risks across a plausible stress environment.

Stress testing on individual risks, or "univariate stress testing" considers the solvency impact of stress events of different severity. It is the results of this stress testing that we report to you semi-annually as our sensitivities and it forms the basis of the solvency monitoring that we perform daily at Phoenix. We also perform testing on combined scenarios where we model the impact of a number of individual risks happening at the same time. We use an "all risks" scenario to quantify the amount of capital policy that we hold in addition to risk capital. During 2019 we have modelled combined scenarios that also simulate the impact of Brexit, a hard left political government and the transition to a carbon neutral economy. Reverse stress testing and qualitative

testing of non-financial scenarios are also performed on an annual basis and provide additional insight into the risk that the business faces.

Our approach to risk management is best understood by working through a case study. Interest rate risk comprises 13% of the Group's undiversified SCR and arises where the impact of changes in interest rates differs between assets and liabilities. This is primarily seen on products which have guarantees, for example, annuities. In the first instance, we seek to manage our exposure to interest rate risk through sourcing assets that are well matched to the profile and features of our liabilities. However, there will always be some residual exposure, which we manage by using hedging at fund, entity and Group level. This approach brings resilience to free surplus.

Our approach to the hedging of interest rate risk has both a routine and a dynamic component. Each quarter we complete a solvency valuation and use the results to review the effectiveness of our existing hedges with rebalancing actions taken if necessary. We have seen interest rates across all durations fall during the year. This is evidenced by the 15 year swap rate which fell by over 90 bps between the end of February and the end of August. As a result of this significant market uncertainty, we have taken a dynamic approach to ensure our exposure to interest rate risk remains within risk appetite and our free surplus remains resilient. In August, we therefore took additional protection to mitigate against the risk of future yield falls by unwinding swaps and entering into receiver swaptions. The impact of these dynamic actions was an £85 million increase in our Solvency II surplus with a similar reduction in our exposure to a rates down sensitivity. This benefit is fully reflected in our Q3 2019 solvency position that Rakesh will walk you through later.

As a result of our approach to risk management, Phoenix is more resilient to market risks than its peers. This is illustrated in the data presented here which shows the relative sensitivity of life insurance peers to interest rates, equity and credit rate risks. Phoenix is on the far left hand side of the chart and exhibits significantly less upside and down side exposure than its competitors. This increased resilience brings certainty to cash generation and supports our stable and sustainable dividend policy.

To summarise. We have a single strategy for managing the £245 billion of in-force Heritage and Open business within the Group. This business delivers long-term, dependable cash generation which we seek to enhance or accelerate through the delivery of management actions. Our approach to risk management brings resilience to our solvency balance sheet which sets us apart from our peers. I will now hand you over to Susan.

Susan McInnes

Chief Executive, Standard Life Assurance Limited and Group Director, Open Business

Thank you Andy and good morning. Phoenix's Open business is capital light and growing. It comprises unit linked products sold under the Standard Life Brand and a small, specialist over 50s protection business called SunLife. The Open business is not a homogenous group, but spans a range of products across the UK, Germany and Ireland. The largest of these is workplace pensions which we see as the engine for growth for the Open business. Our £12 billion of long-term cash generation guidance reflects the cash we expect to emerge from our Open in-force business but it assumes no growth in this business. Therefore, all new open business in the form of increased contributions from existing customers or from new customers is incremental to long-term cash generation.

In the first 9 months of 2019, gross inflows on new business were £5.3 billion, which is around 90% of which was generated by our Open business in the UK. These gross inflows translated to a new business contribution of £141 million and will deliver incremental long-term cash generation of £205 million. These results show how valuable workplace is to the Open business segment, contributing nearly 80% of new business contribution. This result was in part driven by the increase in auto-enrolment contributions from 5% to 8% which took place in April and made a new business contribution of around £50 million.

Workplace is the primary method of customer acquisition for the business and acts as I said, as our engine for growth. With over £41 billion of assets under administration, around 16,000 active premium paying schemes and 1.9 million scheme members, the Standard Life Brand holds a 23% market share and is recognised as a leading brand in the workplace market. That workplace market we expect to be in excess of £790 billion by 2027.

Growth in workplace comes organically by retaining existing schemes and is accelerated by new members joining schemes and by increases in contributions. With around 280,000 new members joining existing schemes in 2018, and auto-enrolment increases in '18 and '19, the potential for workplace growth is very powerful and our scheme retention continues to be high. We also compete to win new schemes which bring further opportunities for growth.

We will deliver workplace growth by offering products and services that meet customers' needs and by acting as a trusted guide for their financial decisions. We continue to invest in our workplace proposition to ensure it remains

competitive and I wanted to talk to you about a few of our recent developments.

In October 2019, we launched a new passive investment solution within workplace which provides a simple, lower cost default solution which is what many of our clients are now asking for. We were one of the first providers to receive authorisation from the Pensions Regulator for our two Master Trust schemes. These schemes have over 240,000 customers and £5.5 billion of assets under administration, making them among the largest in the UK.

This is a growing “modern” business in which Standard Life Assurance is well positioned to compete. This year we launched new annual benefits statements across our flagship contract and trust based workplace products. These were designed in conjunction with behavioural insight experts and our changes included presenting important information up front, removing jargon, including infographics and also a “save more” section.

In terms of investments, we see increasing demand from our customers wanting to invest responsibly and they want to understand more about ESG. We are committed to working closely with our strategic partner, Standard Life Aberdeen to deliver investment solutions that meet our customers’ needs.

But we know that proposition alone is not sufficient. We want to be recognised as a trusted guide to our customers and aim to be relevant and easy to deal with, while delivering great service and value for money. To continue to innovate and deliver a great experience we need to develop our proposition in a much more agile way. We have recently announced the extension of our partnership with TCS who will support us in transforming into a more modern, efficient and scalable business. This transformation will continue to place customers at its core and strengthen our position as a market leader in the workplace market. Tony will tell you more about this later on.

Our retail pensions business comprises a range of products across both the accumulation and decumulation stages of the life savings cycle. We aim to be our customers’ first choice for their life savings by being relevant across all stages of the life cycle. In terms of the accumulation phase I have spoken to you before about our workplace leavers driving growth in this segment as they leave their employer but keep their pot invested in a Retail product. In the first half of 2019 we saw around £1 billion of assets under administration transfer in this manner, providing us with the opportunity to build relationships with customers that extend beyond membership of their workplace schemes.

We also see opportunities for growth from pot consolidation. On average now we are now expected to have 11 different jobs in our careers and hope that

customers will choose to consolidate their various pensions pots. We have had over £500 million of gross inflows from external pot consolidation year to date. There is no longer a “cliff edge” when it comes to the traditional retirement age and our products must provide a flexible solution from accumulation into decumulation. Our drawdown product is currently available to customers who have a Standard Life policy, but launches shortly for Phoenix Life customers to help with this phase of the life savings cycle.

To deliver and sustain growth we must build customer relevance. We continue to invest in our customer connection programme and develop our digital and face to face advice offering with Standard Life Aberdeen. We have also expanded our annual programme of retirement roadshows and webinars.

We continue to invest in the digital journey of Heritage and Open customers through the online dashboard and mobile app. Not only does digitalisation help reduce administration costs, it supports customer engagement and means Phoenix remains relevant in our customers lives day to day.

Our history and different branding result in slightly different “shop windows” for our customers but the underlying functionality and services are broadly aligned ensuring all customers get the benefit of a digital interface and online servicing options. Here I am showing you the “shop window” for the customers of Standard Life Assurance. We now record over 1 million mobile app and secure site session per month. Monthly online logins now typically outnumber phone calls 8 to 1, and this is growing rapidly. Customers are able to top up, increase regular payments and consolidate pots through the app. Customers can also complete a fully guided retirement journey online to make the best of their pension freedoms options.

We have more work to do to encourage enabled customers to “think Digital first” but current take up rates are encouraging. Please come and see us over lunch and you can try the app yourselves.

WRAP SIPP is an insured self invested personal pension product sold through advisors, typically to more affluent customers. Our Wrap book is where we partner most with Standard Life Aberdeen as this SIPP sits on their Wrap platform which continues to be number one in the market for gross flows. Under our strategic partnership, Standard Life Aberdeen manage the advisor relationship and are responsible for sales. We at Phoenix provide the insurance wrapper for the product and are responsible for administration. For Phoenix this is higher volume but lower margin business reflecting our overall effort. This was evidenced in the first 9 months of 2019 results where WRAP SIPP accounted for 40% of gross new business inflows, but only 14% of long-term cash generation.

SunLife is our distribution business and a Market leader in over 50s products where they maintained an impressive 61% market share. SunLife's protection business brings mortality risk to the Group which acts as a natural hedge to the longevity risk in our annuities business. The primary strategic aim of SunLife is to protect and grow its core protection business, however we have been testing the strength and reach of the brand into other products. During '18 and '19 we have developed the capability to introduce equity release mortgage products with good early success. We will remain open to other products if opportunities arise. Moving forwards, SunLife's capabilities in marketing, data insight and innovation remain really helpful within the wider group

Lastly, turning to our European business. As a reminder it has three segments: Ireland, Germany and the International Bond in the UK. The German and Irish business is managed through Standard Life International which provides us with a European foothold. European markets continue to be challenging and have undoubtedly been disturbed by recent Brexit uncertainty. Our focus in these markets is therefore to protect our existing assets, optimise sales where possible and drive efficiencies and improvements to maximise value. Our opportunities for growth are largest in the International Bond business. The recent launch of the Capital Redemption bond met a critical requirement in this market and has seen encouraging interest to date. Europe is a small part of the Open business but provides real optionality for future consolidation.

So to conclude. Our Open business is growing, and this growth delivered £205 million of incremental long-term cash generation during the first 9 months of 2019. This brings enhanced sustainability to our dividend paying capabilities. Workplace is the engine of our business and we are focused on growing this business through investment in our proposition.

Building customer relevance supports growth across all areas of our Open business. We want to be our customers' first choice for their life savings by being relevant across all stages of the life savings cycle. Our European operations are small, but provide optionality for future consolidation. Thank you.

Simon True
Group Corporate Development Director and Group Chief Actuary

Thank you Susan and good morning everybody. I'm afraid it is an unescapable fact that the majority of our Heritage business is in run off. However, our annuity book is growing. And this growth is being driven by

vesting annuities and Bulk Purchase Annuities (“BPA”). Annuity business is value-accretive to Phoenix, providing long-term cash flows which will help support our future dividends. Our published cash generation targets assume an element of vesting annuities each year but these cash targets exclude future BPA deals. As a result, Bulk Purchase Annuities deliver incremental long-term cash generation for the Group.

We continue to follow a selective and proportionate approach to BPA which is funded from the surplus capital at Group. In 2019 we have allocated around £100 million of capital to secure over £1.1 billion of BPA liabilities. This represents around 3% of a market which we expect to be around £40 billion in 2019. These transactions will deliver long-term cash generation of £235 million incremental to our existing £12 billion cash generation target. The capital strain associated with writing BPA reflects both the Solvency Capital Requirements and also the capital management policy that Andy described earlier on. With an average payback period of around 6-7 years, BPA clearly offers attractive returns and brings increased sustainability to Phoenix’s business.

We are now an established player in the buy-in market with over £4 billion of new annuity business delivered in the last three years. And this has been achieved through a combination of internal and external buy-ins. Over time we have been able to increase the returns we have achieved on external BPA and our £100 million of capital spend in 2019 has secured an additional £330 million of liabilities and delivered a shorter pay-back period when compared to the £100 million deployed in 2018. In just two years, our Bulk Purchase Annuity business has delivered £485 million of incremental long-term cash generation.

Our approach to BPA continues to be driven by value and not volume. The vibrant BPA market has a healthy level of competition and we have a clear set of criteria which govern the deployment of capital. We have built a small team led by Justin Grainger who you will be able to meet later on. And we are very thoughtful about where we deploy both our physical capital and our human capital.

To illustrate our discipline, year to date, we have been invited to price 56 deals, of which we have priced 23 and completed 4. Around half of the deals we were invited to price did not meet our criteria for pricing. The size of transactions is key. We do not take part in very large or very small transactions. And although we reinsure over 90% of the longevity risk on BPA transactions, we do take into account the specific demographics of each deal. Because this will impact the shape of the cash flows and therefore the asset strategy and payback periods that we can achieve.

Our ability to win deals in this competitive market is enhanced by the financial strength and resilience of the Phoenix Group, also by the pragmatic, solutions-focused approach of our specialist BPA team. Ultimately however, the key determinant of success in this market is the price being offered to pension schemes. And this price is really driven by two factors. The first is our ability to generate attractive reinsurance terms with our partners given that we reinsure over 90% longevity risk and our ability to source appropriate assets to back the liabilities being transferred. So let's talk about these assets.

Phoenix uses a range of assets to ensure that the asset and liability cash flows of each BPA transaction are closely matched. The illustration on this slide shows how we use both liquid and illiquid assets to achieve this objective. Each BPA transaction is based on a target asset portfolio which is bespoke for each individual trade. It is therefore imperative that we actually achieve this target asset or portfolio and to do this we leverage our strategic relationship with Standard Life Aberdeen.

To put things in perspective. As at 30 September we had an annuity book of around £20 billion and we expect to grow over time. Our strategic asset allocation for annuity business has three key objectives. Firstly matching. We closely match the asset and liability duration. On our backbook the average duration is around 13 years and on new BPA schemes it is around 16 years. Secondly, we maintain our credit discipline. At 30 September virtually all of the assets backing our annuity liabilities were investment grade and these had an average rating of A. And our third key criteria is that we aim for our annuity portfolio to be diversified and this diversification is across asset class, sector and geography.

As you would expect from Phoenix, we operate strong controls and governance across our asset portfolio to ensure that it continues to meet the risk appetite set by the Boards and this is in relation to capital, liquidity, counterparty exposure and credit risk limits. Asset selection is subject to approval by a sub-committee of the Life Company Boards and regular monitoring of the portfolio against risk appetite means that the portfolio is proactively managed.

"Illiquid" assets, these are an integral, but proportionate part of our strategic asset allocation for annuity liabilities. This is because the long dated nature of these assets can provide a good match to the tenor of our annuity liabilities. We believe that we are rewarded for this illiquidity by higher returns and we avoid reinvestment risk by following a "buy and maintain" strategy. As at 30 September, 25% or £5.0 billion of the assets backing annuity liabilities were

categorised as “illiquid”. We target increasing this illiquid allocation over time to 40% split broadly 50:50 between Equity Release Mortgages and other illiquid asset classes. We aim to originate around £1 billion of illiquid assets each year and we therefore expect it to take another 4 to 5 years to reach this target. This has the benefit of allowing us to invest steadily across the investment cycle.

We have a bespoke and disciplined approach to origination and this utilises both our in-house direct sourcing team, Phoenix Group Capital led by Scott Robertson, again somebody you will be able to meet in the next section. But we also use our third party managers and partners. We are sourcing assets for both our back-book of annuities and the new business, this gives us a wide range of flexibility over the yields and duration of the assets we are targeting. In our quest for a diversified asset portfolio, we tend to focus on a relatively smaller average deal size compared with our peers. This can make us attractive to partners in developing bespoke bilateral trades. Most importantly, we prioritise credit quality over yield pickup in our origination.

To illustrate. In 2019 we have originated £1.1 billion of illiquid assets year to date and this has been across a broad range of asset classes and a spread of durations. This origination has delivered a Solvency II benefit to our balance sheet of £116 million. The average credit rating of the assets originated was A+ and the average deal size was £33 million. Our 2019 asset origination has demonstrably delivered against our three principles of sourcing assets of appropriate duration, maintaining credit discipline and achieving a diversified portfolio.

We have a comprehensive and independent credit rating process which we apply to our portfolio of non-ERM illiquid assets. Our 3rd party asset managers play a key role in this process, at origination, by assigning ratings to each individual asset and these are validated by Phoenix’s Internal Credit Rating Committee. Our asset management partners also undertake a quarterly review of each individual credit rating. Phoenix’s management committees then review the “watchlist” of any assets at risk of default and downgrade on a monthly basis. Further oversight of the process is provided by our external auditors who review the Credit Rating framework and asset valuations as an integral part of their regular audit processes. The average A+ credit rating across our £5.0 billion illiquid portfolio is evidence of the robustness of this framework.

Our £5 billion portfolio of illiquid assets is well diversified across 5 main asset categories. Starting with our two smallest on the right hand side of this slide, our portfolio of local authority loans is well diversified. It is spread across 24 different local authorities. Our largest single exposure is £85 million to the

Birmingham City Council this was our first Brummie bond and the portfolio of our local authority loans has an average credit rating of AA.

Our infrastructure debt portfolio represents loans secured on the cash flows of long-term contracts of highly rated counterparties. 70% of this portfolio is backed either directly or indirectly by the UK Government. Our largest single exposure is a £72 million private finance initiative with Semperian. This is rated BBB+, and is backed by 92 UK PFI assets with 86% of its revenues coming from UK Government contracts.

So let me move onto our three larger illiquid asset classes. ERM continues to be our most significant illiquid asset class. And this portfolio has been built through a combination of back book acquisitions and new business origination through funding arrangements with two established ERM partners. We have a well diversified book with a broad regional spread. The average credit rating of this portfolio is AA. This rating is determined internally based on assumptions that are an integral part of our PRA approved internal model. Overall the average loan to value of the book is 33 percent and the current average borrower age is 77 years. For the new business that we originate in 2019, we have seen an average loan-to-value at origination of 28 percent and an average age at origination of 70 years.

The PRA continues to review the regulatory capital treatment of this asset class. Supervisory Statement 3/17 and Policy Statement 19/19 which I am sure you are all familiar with, requires us to test the Matching Adjustment benefit within Own Funds. And we expect to meet these tests for all of our ERM portfolio.

Turning to the final two classes of liquid assets. All of the loans within our £0.5 billion Commercial Real Estate loan portfolio, benefit from robust covenant protection and first ranking security over the underlying properties. Leverage levels are modest, with around three quarters of our portfolio having a loan-to-value below 50%. Our £1.1 billion private placement portfolio comprises a diverse range of 33 investment grade corporate loans and bonds with an average loan size of £34 million. Over 70% of this portfolio is secured and the portfolio has an average credit rating of A.

Susan has already mentioned our commitment to ESG and Phoenix has become increasingly focused on investing in assets that have a positive impact on society. Within our illiquid asset portfolio we have provided funding to support city growth, regeneration and social housing. We have also funded investments across water, solar, wind power and smart meter technology. And we have also helped over 12,000 households unlock equity in their homes

through our Equity Release Mortgage funding partnerships. Phoenix is committed to taking forward a responsible investment agenda.

So before I hand over to Tony, I am going to leave you with my 5 key messages. Firstly, we are growing our Heritage business and we are achieving this through vesting annuities and BPA. Our approach to BPA is selective and proportionate. Year to date we have added £235 million of incremental long-term cash generation from the transactions we have completed. And this is in addition to our £12 billion cash generation guidance. Sourcing the assets that match our liabilities is a key criteria for generating value accretive BPA. Illiquid assets are an integral, but proportionate part of our strategy due to their long-term nature. And finally, we have a disciplined approach to illiquid asset sourcing which has built a £5.0 billion portfolio that is well diversified and has a strong credit rating. Thank you.

Tony Kassimiotis
Group Chief Operating Officer

Thank you Simon and good morning everyone. It is nice to see so many familiar faces. The insurance industry is facing a wide range of external challenges which provide a compelling rationale for transformation. Changing customer expectations, increasing regulation, diminishing expertise and on-going product innovation are exerting cost pressure and a need for the industry to embrace digitalisation and manage risk effectively. A fundamental shift in the industry operating model is therefore required to ensure we are able to deliver value to customers and shareholders into the future. At Phoenix this has been at the forefront of our operating model design, which I will cover later.

Against this backdrop, Phoenix is also ensuring it brings together the two different operating models of our legacy businesses. Jim has talked to you before about the objectives of our transition programme. We are working to harness the “best of both” and build an end state operating model which supports our future aspirations of growth across both our Heritage and Open businesses. Together, the sum of the parts will be greater.

Phoenix’s end state operating model will leverage the strengths of our strategic partners whilst retaining in-house the key skills which differentiate us. Our operating model has three key pillars which are supported by a number of group functions including Risk, Legal, Human Resources and Internal Audit. Two of these pillars operate partnership models with preferred strategic partners. We operate a partnership model for asset management awarding Investment Management mandates to asset managers based on capability and performance. Standard Life Aberdeen are our preferred strategic partner

and provide investment management services for around two thirds of our assets under administration. Financial management is retained in-house where our financial and actuarial teams take responsibility for bringing resilience to our solvency balance sheet and delivering management actions. In Customer Services and IT we will have a hybrid outsourcing model with Tata Consultancy Services which I will refer to as “TCS” and Diligenta as our preferred strategic partners. Phase 3 of our transition programme will deliver this end state model which I will explain in more detail today.

Our end state operating model for Customer Services and IT has been designed to meet a set of clear strategic aims. Improving customer outcomes and providing a fast and efficient service is central to the strategy of our in-force business and to the growth of our Open and Heritage businesses. We need a model which is M&A ready and one which enables the agile deployment of new propositions and services, with accelerated speed to market. It is also imperative that we manage our risk well. We aim to achieve this by rationalising our existing systems and reducing execution risk for our customers. All these aims will be underpinned by commercial sustainability.

Our operating model will deliver cost efficiencies which will enable us to meet our synergy targets. It will also provide for certainty and for delivery and future transformation activities through an already established strong contractual framework.

This picture provides a simplified overview of the three core components of our Hybrid Customer Service and IT operating model. We will migrate all of our Heritage and Open policies onto TCS’s BaNCS platform. This platform is already in place for significant parts of our Phoenix Life Heritage business. This will provide a single, scalable platform that is already market leading for Heritage product administration and will be developed by TCS and Phoenix to service Open products too.

General customer services operations will be provided by Diligenta. Customer and product proposition will remain in-house at Phoenix, as will the differentiated customer services operations that deliver the USP’s of the Standard Life brand, such as our Executive Sponsor Scheme for workplace clients. Access to the digital market place will be enabled by the TCS open architecture platform, and this will support the ongoing development of our digital proposition. This model brings enhanced capabilities and operational flexibility and provides Phoenix with significant competitive advantages.

Our ability to deliver this hybrid operating model is dependent on four key ingredients which we believe are unique to Phoenix. The first is our partnership with TCS. TCS is an IT services, consulting and business

solutions organisation that has been partnering with many of the world's largest businesses in their transformation journeys for the last fifty years. With over 450,000 of the worlds IT specialists working in 46 countries, it provides IT digital and business services for 200 leading UK organisations including 40 from the FTSE 100.

In 2006, Phoenix was a founding partner of Diligenta, a UK based, FCA regulated wholly owned subsidiary of TCS. Diligenta specialises in the provision of end to end transformation Platform based business process services for the Life and Pensions industry. This unique partnership provides Phoenix with a number of early adopter advantages. Our contractual framework with Diligenta is evergreen and converts a previously fixed cost base into a variable cost per policy. Through M&A we have delivered additional scale to Diligenta which has enabled us to benefit from reductions in our per policy costs.

Integration of the AXA business was a good example of these benefits crystallising where we saw a 20% reduction in administration costs on moving this Heritage business to Diligenta. We cannot transform our business to meet the challenges facing our industry alone. We have chosen a world leader in TCS to support us, enabling us to move faster, at lower cost and with greater execution certainty.

The second ingredient is the TCS BaNCS platform. Launched in 2001, Phoenix were the first UK insurance company to use the TCS BaNCS platform in 2006. In fact, we were instrumental in its introduction into the UK market place. The platform provides end to end administration of policies and customer data. Transaction processing is completed automatically with no manual intervention required from the end users after the transaction is authorised or approved. This provides fast, efficient and low risk policy administration.

30 million life, pensions and annuity policies and 550 million property & casualty and health policies are administered on TCS BaNCs platform globally. In the UK it services seven life and pensions organisations including Aviva, M&G Prudential and Scottish Widows. Following the planned migrations, Phoenix will be the largest customer in the UK. The platform is also scalable both horizontally and vertically and there is therefore no upper limit to the number or type of policies that it can administer.

Finally, the TCS BaNCS unit has more than 3,000 associates fully dedicated to BaNCS product development and implementation. This level of support will enable the adaptation of the platform for Open business and ensure that the platform retains its market leading position. The TCS BaNCS platform offers

Phoenix the unique opportunity to have all Heritage and Open business on a single platform. This will deliver flexibility and scale to our operating model.

The third ingredient is the expertise and know how that Phoenix and Diligenta have built together over a decade of successful migrations. Since 2006, we have migrated 7 million policies from 22 legacy systems across 15 separate migrations. All have been delivered within budget and with minimal disruption to customers. We are currently working on the migration of a further 1.8 million Phoenix Life policies which we expect to complete by the end of 2021. The migration of all Standard Life Assurance Limited policies will follow by the end of 2022. This level of migration experience is unparalleled in the industry and gives us confidence that the risk associated with delivering our end state operating model is low. It also evidences our ability to deliver transactions where "extractions" or "lift-outs" of all types of books of business are required.

The fourth and final ingredient is the establishment of a TCS technology and operational services hub in Edinburgh. This Hub will consist of a skilled team of experts from Standard Life Assurance and TCS to build on strong innovation and deliver excellence in customer service. The Hub will enable further digital and technology capabilities to be developed and accelerate the speed with which we can bring propositional developments to market. Located within our Edinburgh Hub, the new innovation lab will enable workplace clients and their advisers to collaborate and help shape our future offering. The Hub will be unique to Phoenix and is only possible because of the strength and enduring nature of our partnership with TCS. We are extremely excited about the creation of the Edinburgh Hub, along with the innovation lab, as it will give Phoenix a leading edge in the workplace market, underlying our commitment to growing our Open business and bringing sustainability to our long-term cash generation.

So to summarise. Phoenix's operating model leverages the strengths of its preferred strategic partners, and has clear advantages. We will have a Hybrid Customer Service and IT operating model that partners in-house expertise with the market leading skills of Diligenta and TCS, and maintains our high standards of customer service. Policies will be administered from the TCS BaNCS platform and serviced by Diligenta. TCS will support the needs of our Open business by establishing an Edinburgh Hub, consisting of skilled experts from Standard Life Assurance and TCS, along with the creation of a new innovation lab. This will bring speed and digital capabilities to our administration services. This model is efficient, enabling us to deliver our cost synergy targets and providing a variable cost base which passes fixed cost risk to Diligenta. This differentiated and scalable model will support our strategic objectives of being Europe's Leading Life consolidator. Thank you and I will now pass you onto Rakesh.

Rakesh Thakrar
Deputy Group Finance Director

Thank you Tony and good afternoon everyone. We have a record of either meeting or exceeding our cash generation targets that extends for over a decade. I am delighted to announce that we have now completed our 2019 cash generation with a further £420 million delivered in the second half of 2019. This takes full year cash generation to £707 million, ahead of the £600 to £700 million target we set for the year. And we remain on track to deliver our £3.8 billion 5 year cash generation target for 2019 to 2023.

As Andy explained earlier, our hedging policy is designed to protect solvency surplus. This means that changes in Own Funds should be largely offset by changes in SCR and vice versa. This is exactly what we experienced during Q3 when our Solvency II surplus remained unchanged at £3.0 billion despite interest rates falling by around 50 basis points in the period. Integral to this unchanged surplus was an increase in Own Funds of £0.2 billion. This was primarily driven from a release in our best estimate longevity reserves as we moved to CMI 2018 and an increase in the fair value of our interest rate hedges as rates fell. We also saw a £0.2 billion increase in the SCR reflecting the increase in interest rate risk from falling rates.

Whilst our hedging strategy has therefore delivered our intended objective to bringing resilience to the Solvency II surplus, we have seen a small reduction in our Shareholder Capital Coverage Ratio from the underlying change in Own Funds and SCR. At 156%, this ratio continues to be comfortably within our target range of 140 to 180%.

We have a three pillar approach to identifying available capital and cash. The first of these pillars is Solvency II capital where we have a target Shareholder Capital Coverage Ratio of 140 to 180%. The bottom of this target range is set to be in excess of the Group's capital management policy and we would invoke rectification plans were we to fall below this level. At a ratio of 180% we would seek to return capital to shareholders in the absence of any alternative growth options.

Liquidity is the second pillar. At Group our policy is to maintain a minimum liquidity buffer of 12 months of mandatory outflows, including expenses and additional amounts for hedge exposures together with a Life company stress buffer. Our ability to draw down on the £1.25 billion revolving credit facility is integral to internal policy compliance.

Our third and final pillar is leverage where we seek to maintain our Fitch investment grade rating by keeping leverage within a 25-30% target range over the long-term, but are comfortable to be above this level for a short period if required.

The objective of our capital allocation framework is to bring sustainability to cash generation. Our first priority is to maintain a strong solvency balance sheet and a Fitch A+ investment grade rating. As Andy explained, a resilient solvency balance sheet strengthened by the delivery of management actions enables us to meet our cash generation targets and ensure we are able to maintain our stable and sustainable dividend policy. Once our dividend is secure, we will allocate surplus capital to value accretive growth opportunities and finally, enhance returns to shareholders.

Susan and Simon have talked today about our strategies for growth across our Open and Heritage businesses and as Europe's leading life consolidator, we expect to complete further M&A. Our Open business is capital light, but requires ongoing investment in proposition to ensure that our products remain relevant. Annuities require a greater allocation of capital but are a source of future management actions. M&A is lumpy and unpredictable but we have a strong track record of buying at a discount and adding value through cost and capital synergies. Because these options are so different, we use a range of criteria to evaluate their benefit to the Group and ensure that we remain within the targets we have set for solvency, liquidity and leverage. These criteria include Internal Rate of Return and Net Present Value, cash generation and payback period.

Andy began today's presentation with a slide that sets out our cash generation targets. These targets reflect the cash we expect to emerge over the life of the policies that we had in-force at 31 December 2018. They assume a level of vesting annuities consistent with past experience and include both acquisition and proposition development costs on our Open business. But they exclude the cash that will come from the growth of our Heritage and Open businesses or through further M&A. This reflects the prudent nature of Phoenix but we wanted to spend some time today looking at the potential upside that this growth will deliver to investors.

At our Capital Markets Day last year, we set out an illustration which we have subsequently christened "the wedge". The purpose of the wedge was to show that we had evolved from being a pure Heritage consolidator whose cash generation would run off over time until we did the next M&A deal, into a group that has other growth opportunities capable of bringing more sustainability to long-term cash generation. Sustainable cash generation will

enable us to pay our current dividend into the long-term without the need for further M&A.

The run off of our Heritage business is predictable and we therefore have more certainty of the shape of the Heritage “wedge” in our illustration. We typically see our in-force Heritage business run off at 5-7% per annum although it is worth noting that we will get a kicker of around £100 million per annum when Solvency II transitionals run out in 2032.

Absent M&A, we now have three growth options available to offset the run off of our Heritage business and bring sustainability to cash generation. In March we shared with you the maths that showed that if our Open business were to grow at 4% per annum from 2018 levels, it would offset in full the run off of our Heritage business at 5% per annum.

Our BPA business has been up and running for two years and is providing growth which is dependable. BPA now provides a second, credible way of offsetting the Heritage run off. Allocating circa £100 million of capital per annum to BPA at the deal economics experienced in 2019 would provide a 3-4% offset to Heritage run off.

Finally, we remain committed to continuing to improve the customer outcomes across our in-force business by increasing product options and customer services. To the extent this leads to improved lapse rates from those assumed within our current run off profile assumptions, we have the potential to reduce the run off rate of our Heritage business. These three options are not mutually exclusive and are part of the ongoing strategy that we have explained today. Most importantly, our capital framework will ensure that cash remains sustainable throughout as we look to balance cash emergence. And remember, M&A completed in accordance with our deal criteria will also bring enhanced shareholder value and sustainability to cash generation.

So far in 2019, we have generated £440 million of incremental long-term cash generation from growth in our Heritage and Open businesses. So whilst we believe it will take two years to prove the wedge hypothesis, the evidence to date is encouraging.

We are often asked whether we will report cash generation by segment moving forwards. As Andy explained earlier, cash generation comprises remittances by Life companies from their free surplus. Free surplus is calculated at entity level and reflects the surplus of our total in-force book across different products and segments. It is therefore not possible for us to accurately reflect actual cash generation by segment. However, what we will provide to you annually is a reconciliation of our long-term cash generation

guidance and how it has changed year on year. We provided this reconciliation in March 2019 and will do so again when we announce our full year results on 9 March next year.

Incremental cash generation from new business and additional management actions will increase our current £12 billion guidance. Offsetting these increases will be the actual cash generated in 2019 of £707 million. We will also see movements from changes in best estimate assumptions and the impact of market movements. These could be positive or negative.

I mentioned earlier the importance we place on meeting our stable and sustainable dividend policy, prioritising this above investing in growth opportunities. Whilst our dividend policy remains stable and sustainable we have seen growth in recent years being triggered by corporate transactions. This has resulted in four dividend increases equivalent to circa 5% per annum over the last 8 years.

To summarise, we have a clear framework to allocate surplus capital and a number of growth opportunities to further enhance shareholder value and bring long-term sustainability to our cash flows. It remains too early to determine whether we have proven the hypothesis set out in “the wedge” that we can offset the run off of our Heritage business cash generation without M&A, but the evidence to date is encouraging and we will update the market again at our full year results. Thank you and I will hand you over to Clive.

Clive Bannister
Group Chief Executive

Rakesh thank you. I sense the restlessness if you want to get into Q&A so we are in the final furlong. And in that furlong it falls to me to conclude and talk about the consolidation in our industry and the opportunities for further M&A.

We believe that there remains a wealth of consolidation opportunities both in the UK and across Europe. And Europe for us for these statistics means Germany and Ireland with an estimated market size of circa £580 billion, up from £540 billion in 2016.

We believe the drivers of consolidation are increasing. These are forcing institutions to make binary decisions whether to keep or sell their legacy life insurance businesses. There are absolutely factors which support the rationale for companies to retain their Heritage businesses. They include reliable cash generation, cross selling opportunities and business model diversification that is rewarded in capital management policies. However, in our opinion, these arguments are looking increasingly threadbare.

Typically Heritage businesses are administered on old legacy systems which are expensive to maintain and challenging to digitalise. Thus the comments made by TK and Susan are so relevant in their earlier presentations. Attempts to upsell and cross sell have not worked easily. And delivery of cash by incumbents without our "Phoenix type" management actions is not easy and in certain cases impossible for incumbents. The cost of managing regulatory change to avoid penalties and reputational damage remains burdensome.

The tough macro-environment, in particular lower rates for longer, places an additional strain on the value of the legacy books. This compounds the bad back book economics which leave insurers with stranded fixed costs, facing rising policy charges and that is not a happy place to be. All of these reasons can lead firms to feel that they have capital trapped in their Heritage businesses that could create better shareholder value through their divestment.

Traditionally, life insurance companies were vertically integrated, comprising sales, investment management, administration, and underwriting. Due to the drivers of change already discussed and divergent dynamics between asset management and the insurance market, we have seen many vertically integrated companies restructure. Firms are choosing between being "capital-light" asset management or "capital-heavy" life insurers. It was this driver, to release trapped capital, that encouraged Standard Life Aberdeen and Quilter to dispose of their insurance businesses to Phoenix and ReAssure respectively.

The barriers to entry to our industry are high. This is evident today in the UK and I believe increasingly evident in Europe. Regulatory approval is a key gating item for M&A. Phoenix has strong relationships with its two regulators, and an approved internal model which provides a bespoke calibration of our risk universe and a risk management framework which delivers financial resilience. To be value accretive, an acquirer must be able to deliver cost and capital synergies. The two go hand in hand. Phoenix has a strong record of exceeding synergy targets, through our scalable operating model and by leveraging the specialist skills of our Phoenix colleagues.

Scale is so often the enemy of quality and efficiency, but scale in our industry and on a diversified portfolio brings great benefits in the consolidation business. Vendors who enter into Part 7's, need to have quality in the acquirer to know that a deal will get done, and that it will stay done. As a FTSE100 company, with good access to the capital markets, with over 100 legacy brands within our family; we believe our insurance credentials are

beyond doubt. So this is a very difficult market to enter, and Phoenix's competitive advantages are demonstrable.

The consolidation market is growing, and Phoenix is the market leader. But we are disciplined and remain faithful to the acquisition criteria that have guided us in the past. Deals must be value accretive, support our stable and sustainable dividend policy and maintain our investment grade rating. And we are "open to business". Tony has outlined our plans for the third and final stage of the Standard Life Assurance transition programme. Execution is progressing and we are on track to deliver our synergy targets.

Funding is not an issue. We can finance an acquisition of up to £1 billion without returning to equity since we have a £1.25 billion revolving credit facility that Rakesh has already made reference to. We are therefore confident of completing future value added M&A in the future.

To close, Phoenix is a remarkable company. The story is just beginning. I think the future looks better than the past. We have, and will continue to deliver Cash, Resilience and Growth as our Chairman said at the outset. And we Europe's largest, but more importantly, we are on route to becoming Europe's Leading Life Consolidator.

Thank you very much. So we move from the presentations into Q&A. May I ask you to stick your hand up, wait for the microphone to materialise and give us your name and tell us the institution you represent and then we will answer, easy questions in my direction and all the tricky and impossible questions to my right.

Question and Answer Session

Question 1
Greig Paterson, KBW

Good afternoon everyone, it is Greig Paterson, KBW. Three quick questions. One: is the PRA is doing a stress test currently that captures both wider spreads plus downgrades in combination which is a sort of toxic combination where you do that scenario. I was wondering to what extent your Solvency II sensitivity is representative of the PRA stress test that is coming out in the new year?

My second question is, I wonder if you can give us some colour around your, you mentioned your downgrades and watchlist and maybe you can give us a percentage of your £20 billion assets backed and annuity book that are on

that watchlist, I would be interested to know what that is now and what it was a year ago?

And then finally, in terms of equity release, I think you gained business from this company that I am thinking about. But the largest equity release originator has just changed its process and now has moved to an option process which I think will put pressure on what you actually achieve on those assets. I wonder if you just want to talk about that if that is a risk?

Clive Bannister
Greig thank you, three good questions there. The first one is about PRA stress testing, will you take that Rakesh. Then I am going to look to Simon please about the downgrade and the watchlist on some of the annuities. And finally the equity release methodology by which we acquire books etc.

Answer: Rakesh
So regarding the stress tests Greig, a good question. So I think when we provide our sensitivities we try to give a broad indication of something that would emerge in the foreseeable future, i.e. a real case scenario. And most of our stresses that we provide is a 1 in 10. And in relation specifically to the credit spreads, we do provide spreads and we do have allowance for downgrades in there. Clearly the PRA's objective is to really see how much stress can firms provide and it is a lot more onerous. But I think what we provide - is more, is - provides a better representation of what could happen in the medium to short-term.

Answer: Simon
Greig, I am sorry I am not going to be able to give you the list of what is on our downgrade list. But I can give you a flavour of that later. Probably the biggest area where we have had a downgrade issues on local authority loans where there is a step change to the treatment of those. We kept all those under review. In terms of the most important thing obviously is of course defaults and we have not suffered a default on our credit portfolio on the shareholder account.

Your second question on equity release mortgages and the change to the process. I mean this is something that we have to monitor. As you should have got from the presentation, it is all about the value creation, it is not about volume. We don't care about where we are on the league tables. What we care about is where do we generate a spread that is suitable for the tenor of our liabilities and risk adjusted. And if for whatever reason that market became changed and it wasn't something we felt we were getting the returns that we needed, we would shift to one of our other asset classes. As I said, we have always been looking to diversify anyway. So we would be looking

outside of the UK as well. So we will adapt alongside our ERM providers but we will always, always focus on value and not volume.

Further question
[Inaudible]

Answer:
They are one of our originators yes.

Further question
[Inaudible]

Answer:
Will it reduce the, we don't believe so, no. And also we have a very specific arrangement about the assets that we fund and that is not changing.

Question 2
Andrew Baker, Citi

Hi, Andrew Baker from Citi. Three questions please. So first, so approximately a third of your five year cash generation target is from management actions. Are you able to give the split between the increase in owned funds versus the decrease in SCR that you expect there? Is it 50:50 like you have seen in the past or are you expecting something else?

And then, do you have a preference internally for increases in Own Funds over a reduction in SCR? And relatedly, does the Regulator have a preference there?

Secondly, I guess that was a long first question, but secondly you touched on it briefly, but the Part 7 transfer that you saw the Court Ruling from Prudential - is that impacting you guys specifically or the consolidation market as a whole?

And then third on "the wedge". I know you are still proving out the concept, but is Open business the biggest, is that the sort of the biggest unknown there? Specifically if I look at the assumption, the £280 million cash generation assumption growing at 4%, if I assume that Q4 this year is the same as Q3, that gets me to about £265 million with a £50 million kicker from the increase in auto enrolment. So a little bit about what the growth outlook is there? Thank you.

Clive Bannister
Andrew thank you for those three questions. I think the first and the third, the Euro cash one is about cash generation. We have always been somewhere between 10 and 30% on the whole. Management actions make up a greater proportion of our cash after we have done transactions, but that's one third, so the question was our balance between the two going forward. And then the question was the preference in our family and the preference from the Regulator. And then the third question, your answer is about the contributory factors in "the wedge", how far down the track are we?

I will answer the second question which is about Part 7. First of all you would not expect Phoenix to talk about any specific judicial process, certainly not about Rothesay and Pru. What we believe is a firm, and I think our industry believes both on the GI side and also in the Life and long-terms pensions, is that Part 7's should be a reliable mechanism, because when you transfer a risk, the donor needs to know, the cedent need to know, and the recipient and it will happen, and it will happen reliably in a way that can be predicted both by way of content, by process and over a timeframe. What do we believe the outcome? That is, I think it may go to appeal, but that is for other parties to decide. I think that is the case and therefore we are interested in the outcome. What it does advertise is that the Courts are interested, not exclusively in whether there is or is not financial detriment, but they are interpreting their powers to look at the venerability, the quality of entities. That is unlikely in my opinion to go away, particularly with the zeitgeist of the moment. But we will be very interested and we hope very much that the predictability and reliability of Part 7's is restored.

Further Answer:
Okay so thank you Andrew for your questions. So let's take the first one. So you are right, a third of our five year target is relating to management actions and I think I would broadly say that about half and half is between Own Funds and SCR.

Regarding our preference and the PRA's preference, let me just talk about our preference first. Now clearly and as you heard from Andy's presentation earlier, improvement in Own Funds is effectively an increase in future value. So in terms of shareholder value ideally you would always want to increase your Own Funds as a management action. But clearly sometimes there are opportunities to reduce your SCR. When you compare to our cost to capital, it seems absolutely the right thing to do. And therefore we will always look at those opportunities as well. So I think it just depends on the situation of what we prefer and I think we are happy to do both.

With regards to the PRA, I mean I can't really comment on what the PRA would prefer so I am not really, not really much I can say on that.

Regarding the third question on "the wedge" and the growth outlook on the Open business. So as you rightly pointed out, you know in terms of our long-term cash generation, broadly half is on BPA and half is on the Open business. And this year the Open business did get a kicker from the increase in auto-enrolment from 5% to 8%. As you heard from Susan you know the workplace is our engine of growth, that is where we will, you know we will focus our attention. But the Wrap SIPP, which is another key contributor to our Open business is continuing to flow, but is down due to the market uncertainty and the fact that the change in the DB to DC schemes that we experienced in 2018 and the reduction in that, we have seen that come through in 2018. So workplace will continue to play a significant part in the Open business. We have heard from Simon, you know we have been two years now on the BPA trail. Before it was a proof of concept and now it is now part of our ongoing strategy.

Question 3
Ming Zhu, Panmure Gordon

Ming Zhu, Panmure Gordon. Three questions please. The first is on M&A. Could you please for the three regions you are in, please give a little bit more colour in terms of the pricing environment. When you expect the pricing environment to return into your favour?

And my second question is on the Open business. What is the biggest challenge you are currently seeing, getting the inflows on the Retail and Wrap as well as winning schemes on the Group pension side?

And my third question is that you have always talked about 180% solvency ratio and above that for capital and deployment. But if I look at your Solvency II sensitivities you are among the sort of lowest among the peers and in order to get to the 180% you need quite a lot of factors all working in your favour at the same time. So the likelihood given the current environment is pretty low. So I mean I just want to get a sense, is that 180%, what is that based on, is that too conservative or have you built in factors in terms of a bad Brexit? Thank you.

Clive Bannister
Fine, thanks very much. Three questions then. Susan will you take the second question first and talk about the challenges in the Open business

Answer: Susan
Certainly. Thanks Ming. I think you asked two specific questions on the Open business. I think the first one was the challenges on the Retail and the Wrap SIPP business. And I think as we can see from a number of industry reports, we are absolutely seeing that business and some caution from investors around Brexit. We see a number of people not wanting to make large financial decisions particularly around the pensions as we have the political uncertainty and the market uncertainty we have. I think that is probably the biggest challenge there.

You also asked about the workplace market. And I think probably the largest challenge has been around firms receiving their Master Trust authorisation which I mentioned in my slides. There is a number of firms still to receive that. And I think the Master Trust we believe will be a very important dynamic in the workplace market going forward as firms moved from either their own Trust or unbundled arrangements into bundled. So we are starting to see those authorisations come through and I think that will remove that challenge.

Clive Bannister
Rakesh would you comment on the 140 and 180 in the context of the stable and sustainable?

Answer: Rakesh
So the 140 to 180% was set based on first of all our you know the lower end was based on our risk appetite. And the upper end looking at you know if we are investing in all these growth opportunities. You know, the fact that, you know, how much capital do we need to hold during that period? So that 140-180% was set in that context.

Regarding your comment Ming about the fact that if we look at our sensitivities, potentially, you know, all the markets have to move in our favour to get to that position. But I would probably look at it in another way and say actually if we continue with our growth strategies of value accretive opportunities and also future M&As, you know there is potential to get to that level from the management actions we can deliver from doing all those actions.

So yes I mean if you look at it today, you know that 156% and looking at the sensitivities is probably far away, but if you just think about all the growth opportunities and management actions that we have in train and potential for future M&A which we will talk about shortly, you can see that we can potentially get there.

Clive Bannister
So Ming, your apparently innocent question is of course a man trap so I am going to avoid it, about M&A in a place called Europe. So let's go through the maths. £580 billion, how do we know that is the size of the closed life market from the official set CR returns. That is how we calculate them, the delta between 540 and 580 which was on my first slide is where we were in 2016 and now the availability of the numbers. Let's break those numbers down.

By far and away the biggest market is in the UK at about £410 billion. You then get to our friends in Germany at about £140 billion and then Ireland at a number which is closer to £30 billion. It matters less the size of the numbers and what is perfectly clear is that it is a very big market. If you added those numbers up and you put a 10% capital backing, that is arguing that £58 billion of capital has to come from one family and go to another family. That is the substance of the market. We are going to go fishing where we have the most relevant scale and the deployable assets and they naturally remain in the UK right now. So I don't think it is tomorrow and it may not be the next day when we look to Europe. But just as Susan said, through the acquisition of Standard Life Assurance, it gave us a strategic optionality, a shop window, a door into two markets where we have relevant skillsets and in doing any M&A if you have a pre-existing asset then you can fold on top, and it makes the realisation of capital and cost synergies that much more plausible.

You asked about pricing, there is not a lot of demonstrable evidence in the European market as to where the pricing is. Relatively few deals in either Germany or Ireland. So I don't think I can give you a pack answer. But whatever we do, our primary focus remains in the UK in the near term and we would always stick to something which is cash accretive, something that protects stable and sustainable dividends and of course finally something that keeps us within our investment grade rating, which we protect, from Fitch.

Question 4
Steven Hayward, HSBC

Thank you very much. It is Steven Hayward from HSBC. Three questions from me as well. On the new business strain of your BPA business, the 9% you have given, you say it is based on your capital management policy. Can you tell us whether this is based on a 140% or a 160% Solvency II ratio or am I barking up the wrong tree here?

Secondly, if your Own Funds and your solvency capital requirement both increase by £2 billion, so your surplus is still £3 billion, what would you do as your solvency ratio would be down to 140% at that point?

And thirdly, can you tell me why a firm with a legacy business should go to you guys rather than going directly to Diligenta with an outsourcing agreement? Thank you.

Clive Bannister
So the easy question is the last one, so I am going to answer that. And the two more difficult questions I am going to share between Rakesh, I think, on the new business strain if you want to comment on that. And then the more technical question about Own Funds and surplus and the movement between the two, that maybe one you want to take at lunch.

So why would somebody not go to Diligenta? So first of all you have to ask the "somebody" and you would have to ask Diligenta, that is my cheeky response Steven. The facts that Tony was able to advertise the number of policies already on pre-existing clients, mentioning firms like the Pru and Scottish Widows etc, means that firms have just done that. I do not know the nature of those contracts, whether they are exclusively and policy administration or whether there is a component of risk. That lies at the heart of the question.

Steven what we do is we take on real balance sheet risk, so that is what a vendor wants, to transfer and therefore release of capital whereas principle is, best I understand it, our friends at Diligenta and TCS take on the administration and they do not take, even under reinsurance measures, any part of the capital or risk transfer. So that is a fundamental difference but we choose prefer strategic partners who are excellent in their fields and Tony has advertised the extraordinary qualities that this firm have and how well they have served us for the last 16 years.

Answer: Rakesh
Shall I take the second question and Steven you will probably have to go, if you want to go into detail, we will take this at lunch. But probably just to say that, I mean, I understand what you are saying about the workings of maintaining a £3 billion surplus with Own Funds and SCR increasing. I will give an example which is theoretical because that is effectively an almost doubling of our current balance sheet. But I think what I would say and what you heard earlier from Andy and myself is that when we set our risk appetite it's based on a 1 in 10 risk scenario which we then effectively convert to a ratio, which equates to, you know, less than 140%. We would continue to use that approach and in reality I would expect that ratio to be different. If that extreme example had happened I could have taken that off [coughing].

Clive Bannister
And then question re Open, I think the capital strain so far is £3 million? Simon?

Answer: Simon
I think the question was on BPA wasn't it about how we fund that? So basic principle is that Group injects back into the Life company the capital required to take it back to where it would have been if the deal hadn't happened. So therefore we have to put in the SCR and the capital management policy. And the capital management policy within the Life companies is currently around the 135% of SCR.

Clive Bannister
Thank you Simon.

Question 5
Jon Hocking, Morgan Stanley

Good morning, it's Jon Hocking from Morgan Stanley. I have got two questions please. Firstly on "the wedge". You have been very cautious about declaring victory on the book ceasing to run off. With the detail you have given in the appendix today, are we now in a situation where we are debating the grading of "the wedge" rather than whether the book is actually running off any more? That is the first question.

And then secondly, you mentioned or you run through the acquisition criteria for new deals. You didn't mention "the wedge" in relation to that. Would you be prepared to do a deal if the book demonstrably went back into run off for a required period of time after a deal? That is the second question, thank you.

Clive Bannister
Demonstrably went back into run off?

Jon Hocking
Run off if you are on the end going forward. "The wedge" whether it is affected?

Clive Bannister
So can you deal with the first part about declaring victory on "the wedge" and or arguing about the gradients thereof?

Answer: Rakesh
So I think Jon, thank you for your question. I think the appendice you are referring to is the illustration put forward on the BPA, is that right Jon? Yes.

And the Open business. So I think on both of them, as I said in my presentation it is still early, we are still proving it. But if this continues to be the case and we continue to see the growth on the Open business that we see that increasing over time. And also on the BPA that we continue to write you know, accretive deals that we have seen in 2019, then if that happens for the next one year, two years, and we can demonstrate that, then at that point we would be potentially declaring victory. I think it is still too early at the moment.

Clive Bannister
Can you just give Jon back the microphone, I just want to hear the second question again about whether we would be prepared to - as it faded away.

Further question
So just in terms, at the moment you have got the existing book obviously and "the wedge" is trying to demonstrate that the cash flows aren't running off and you can grow those cash flows. But if you were to do a large transaction, relative to the existing size of the book and what you acquired didn't have any business capability, then presumably you would go back into run off for a period of time. So is this "wedge" hypothesis something which is a permanent part of the strategy or would you be prepared to abandon it or push it out if you did a very large transaction relatively excising stock of cash flows?

Clive Bannister
Okay, so I am going to answer it and then Rakesh is. So there are three counter factuals there. One is the nature of whether it was a very large transaction. The second would be the balance of that business, whether it was predominantly run off and had no open capability. And then what would be the counter factual the balance between something that we are still proving? So quite hard to answer. My sense is that we are open for business. We are in the business of solving vendors' challenges and some things are open and some things are closed, more with profits, less with profits etc., They all have different run off criteria and it was Andy who started by saying about our vesting annuities etc and how we are going to get growth and what is included in our current Heritage run off business.

And the second point is would we then "bin" the concept of our Open business and the value of this "wedge" and my answer would be no for two reasons. Because "the wedge" has various component parts. I mentioned the vesting annuities and more particularly we have introduced or highlighted today our BPA capability. And there is no way that Susan's Open capability is disappearing or becoming less relevant in the world. Rakesh.

Answer: Rakesh
Yeah and I think Clive you have answered it. We are absolutely open for business whether it is Heritage books of business or if a Heritage book of business comes with an Open business segment. We would have to look at "the wedge" again to make sure, to reset it essentially. But I think what "the wedge" is trying to prove is the long-term sustainability of our cash flows and that is what we will continue to try and prove.

Clive Bannister
Now we like Jon because he only asked two questions. All the other ones have been three and at some point somebody is going to die of hunger in about ten minutes time and I wish to have lunch. So let's kick on. We have ten more minutes and then we are going to wrap up.

Question 6
Andy Sinclair, Bank of America

Thanks it is Andy Sinclair from Bank of America. I will go back to three if that is okay! So firstly it was just on Retail margins. I was probably a little bit surprised that they are so much lower than the Retail margins when the Revenue margins are higher on Retail I'd have thought. I just wonder what is driving the Retail profitability lower? Is it just a bad year as volumes were a bit lower, growing scale, just anything on that please?

Secondly, I think I read that you said that M&A needs to be done at a discount to Own Funds. Just wonder if that means unadjusted Own Funds, so how the selling party sees it versus how you adjust the Own Funds afterwards?

And thirdly it was just on outsourcing partners. You are moving towards TCS, Diligenta, away from Capita, do you see any concentration risk in that market at the moment? Thanks.

Clive Bannister
Great questions. Great questions. Susan why don't you kick off on margin, will you do the discount and the discount to Open funds and then will you take our concentration risk and the industry's risk with our friends at TCS?

Answer: Susan
Okay. So I did talk about margins. I was talking particularly about our Wrap platform product, clearly we have a variety of Retail products that have a variety of margins attached to them. But the specifics I was giving you was around a high volume platform product where across the industry the markets are, sorry the margins are relative, although I wasn't giving comment on Retail products generally.

Answer: Simon

So on your second question, Andy. Will we buy it? Do we have to buy it at discount to our Own Funds? No we don't. We currently trade at around 85-90% of our Own Funds. So for us to meet our M&A criteria i.e. we don't want to suffer any dilution to our shareholders, that business would have to come into our business and therefore on a like-for-like basis we would have to be paying something like 85-90% to avoid that dilution. Not all Own Funds are created equal. You will have seen during the summer an asset trade at what was seen to be an eye watering price of 120% of Own Funds. And that was crucial because that was on a particular basis and a particular expense basis. Hopefully you have taken some comfort from what Tony has said during today that we can achieve relatively low expenses. And so if we were to acquire that business, it wouldn't be at 120% of Own Funds. Those Own Funds would go up because we would be capitalising on lower expenses which we would have certainty on due to the arrangements that we would have in place.

So in short it is impossible to take a multiple of Own Funds and be happy about it. What you need to look at is what are the Own Funds on our basis after we have put it onto our Platform, after we have delivered our synergies. And then you can judge us on whether it is accretive or not. But to date all of our deals have clearly been hugely value creative.

Further answer: Tony Kassimiotis

Concentration. Thanks for asking an outsourcing question. I thought I wasn't going to get one today so thank you for doing that. I think when we look at concentration risk, I think it is not simply an outcome of outsourcing, a concentration risk. We think about in-house operations running complex systems and running complex processes also have the same concentration risk. So our strategy is about simplifying the technology estate, simplifying the infrastructure, feed that within our own family but in this instance clearly we are using partners. Having said that, there is no doubt that the more work that you give to a partner, the more risk you have with that partner. So we have good oversight models in place to manage that risk both contractually but also as part of our exit planning process which is a regulatory requirement that we need to continue to refresh on an annual basis.

And probably the third part of that question is when you look at Diligenta, the reason why Diligenta is important for us, it has the Life and Pensions capability, but it also can rely on the broader TCS family to bring expertise and skillset to the table which is something that we alone could not access without this kind of capability.

Question 7
Charlie Beeching, KBW

Hi, it's Charlie Beeching from KBW. In 2018 you generated £250 million long-term cash from £0.8 billion of annuity liabilities, whilst in 2019 you are saying you are generating £235 million from £1.1 billion. What is the reason for the margin compression here in a period of rapidly growing demand?

And secondly, could you give an update on Pensions Super Funds and how much of a threat you see from them to your business proposition or otherwise? Thank you.

Clive Bannister
Simon do you want to do the first one?

Answer: Simon
Sure. I think it is probably worth taking just a quiet step back about the metrics we put out. So we are trying to oversimplify by giving you sort of the headlines about what is our capital requirement? What is the payback period? So the reality is that every deal is unique. And effectively the cash generation is a function of the demographics of the schemes that you have. So very broadly, the longer you have a scheme for, so the younger the members that you are re-insuring, you have more time to generate some excess returns and farm those over time. So it is very hard to give a rule of thumb. We are trying to do that. The one metric that we don't show, that I am sure you would all love to see, would be things like our internal rate of return. We very consciously do not disclose that. All I can tell you is that every year, year on year we have increased our targets and met those each year. So the internal rate of return is getting better year on year. Whereas you will see a lot more noise around things like the payback period and the cash generation. But of course cash generation is key for Phoenix. So we are only writing this for value. Very happy that Justin and Scott in particular will take you down another level in the break.

Clive Bannister
Susan, are Super Funds a threat to us?

Susan
One for Simon.

Answer: Simon
Super funds are interesting aren't they. I think that they are targeting a different level of funding to the scheme. So very broadly for the uninitiated, most buy-ins are done by relatively well funded schemes. There are around

two trillion of assets within pension funds across the UK. There is a top segment which is able to transact at the moment because it is well funded enough to do a buy-in and it can afford to do that. What Super Funds are targeting is a segment lower down where effectively you are going to aggregate schemes that are not well enough funded for a buy-in, but may be able to nurse their way to a future buy-in. We monitor this market very carefully and we are actually working very closely with our strategic partner, Standard Life Aberdeen to see ways in which we can work together in that market. Because effectively what you are doing, the Super Fund market is doing is not unintelligently, is taking Trustees on a journey and making sure they have got appropriate assets that will lead them ultimately to buy-in. And so we are doing some work in that field, but we don't see it as a major threat. I think that the biggest of them is probably targeting about £5 billion of liabilities over time. And the BPA market itself was £40 billion, I expect it to be £40 billion this year. So they are different segments and they are a different scale.

Clive Bannister
Thank you. Good answer.

Question 8
Dominic O'Mahony, Exane BNP Paribas

Thanks very much, Dom O'Mahony, Exane BNP Paribas. So firstly Susan I might just ask Andy's question in a slightly different way. I noticed that the new business contribution from the different products are wildly different and workplace seems to be much more profitable than the other business lines. Could you explain why that is and how that might change over time because I imagine part of that is just to do with scale and where the different businesses are in terms of scale? But also you mentioned a passive product, can you just confirm that from your perspective the margins aren't materially different on that? I imagine they are obviously different for SLA but from an insurance part of the value chain, is there any difference in the value concerning that?

And then, Simon you mentioned the regulatory action on equity release mortgages. The regulators also at least consulting on action to do with other real estate backed lending and the matching adjustment benefit from that. Have you folks had a chance to run the slide rule on this, is it important? Thank you.

Clive Bannister
Susan and then Simon, short answers and then we have Oliver and Andrew and then we have lunch.

Answer: Susan
I will go for short answers, but I am happy to expand over lunch if that is helpful. So yes most of the contribution is coming from Workplace and not from Wrap. I think it is important to note that Wrap, the part that we are playing in Wrap is relatively small. Remember this is a Standard Life Aberdeen product where they are doing the distribution, they are dealing with the advisers, it is on their Platform. We are just doing the administration. So it is understandable that the portion that we get from that product is relatively small. It is also very low margin product. Workplace is different, that is our product where we have got a fully bundled solution for workplace and it is a better margin product overall against Wrap.

Your second point was on Passive. And so if you could just tell me again?

Further question
[Inaudible]

Answer: Susan
It is, absolutely it is.

Answer: Simon
So the PRA's continuing interest in liquid assets. The short answer is that we monitor it, we give feedback on the consultation papers. One of the things that is going on in parallel is we have, we are combining our two internal models. We have got an internal model harmonisation process. As part of that over the course of the last six months and throughout 2020, we are spending a lot of time with the PRA about the calibration of our internal model - this harmonising. So I think we are quite close to the PRA's thinking on this. We are not seeing, and I touch every bit of wood that I can find, we are not seeing any show stoppers here. It is not leading us to change our strategy or to have a volt fasten anything.

Question 9
Oliver Steel, Deutsche Bank

Oliver Steel at Deutsche Bank. Thank you very much. I have two questions. So the first is, as you migrate those remaining policies across to TCS, is the planned saving from that fully reflected in the management actions which you are targeting at 2023?

And then on page 14, the little chart to the left, I guess it is illustrative, but the management actions you sort of, you show as an indication, and I know it is not formal beyond 2024, looks to be quite small, sorry slide 14.

Clive Bannister
It will take me a long time to get there and lunch will be cold!

Oliver Steel
So the planned management actions beyond 2024 in that slide look quite small in relation to the £8.2 billion, is that just illustrative or have you run out of space on the page or are you trying to tell us something?

Clive Bannister
So two questions, one is about the costs embedded and looking at Rakesh, the costs to be taken, the transitional costs on transfer business and administration in part, not wholly to TCS, already in our management actions, baked in. And the second question.

Answer: Rakesh
Okay so on the question Oliver about the migration to TCS and whether it is reflected in our management actions, it is actually part of our, as you know, it is part of our transition programme of Standard Life and within the synergy targets that we have set, so that migration is phase three of that portion and is included in those synergy targets.

Then on page 14, I think this is just really just illustrative to say there will be a portion of our future cash generation post 2024 that will be made of management actions. Clearly it is a long way out and what we normally do is look at the detail for the next five years and we will keep on doing that on an annual basis. So we expect, given our history, that we will continue to deliver management actions. This is purely an illustration on the quantum of that going forward.

Clive Bannister
And on March 9th next year we will update our five year cash flows. So Andrew final question. You stand between us and lunch. Don't feel any pressure.

Question 10
Andrew Crean, Autonomous

Right I have got 15 questions! Actually two. Firstly when you did the Standard Life deal and raised a lot of equity, I think you said to your shareholders that the next deal you do, you said you would do it from internal funds. Does that still hold now for you and does it still hold for your successor?

And then the second question on the Open business, I think you showed the cash flows going out, but you don't the new business strain on the Open business is held within the run off. Could you tell us if you married those things together when is the breakeven point on the Open business getting over the acquisition costs?

Clive Bannister
Right, so two questions there and thank you for that brevity, they are very straightforward. Do you want to talk about the economics of the Open business, I am looking at Susan or Rakesh?

Answer: Rakesh
So when we looked at it from the perspective of "the wedge" and what we were trying to do is to say when we have the cash flows relating to the Open business, because we have near 90, over 90 billion of the UK Open business that generates cash. And in terms of the Open business going forward we are only looking at new business. And within the existing cash flows that are emerging from the Open business that we have today, i.e. within the 90 billion, that is effectively paying for the increase in the proposition costs and the acquisition costs of that business. So if you took Open business in aggregate I think it will continue to show that it is profitable when you take it in aggregate. What we are trying to demonstrate on "the wedge" is the incremental new business that will grow given that the acquisition costs will be paid for by the existing Open business.

Clive Bannister
Thank you very much. So we are going to draw it to an end. I am going to answer your question. So the question had two parts. The Standard Life transaction was equity heavy, that has resulted in a corporation going into the tough macro headwinds that we have where we have leverage at 22-23%. We range as a corporation between 25-30% as you know Andrew. That means that delta is a billion pounds. So that is what we had in the kitty. And Jim and our colleagues in Treasury have an RCF revolving credit facility for £1.25 billion which is entirely undrawn. We have no senior debt outstanding or of any subordinating debt. So philosophically, were there to be another transaction, it would be financed depending on the shape and type of transaction, you never know until you actually have a deal. You have to look at the financing, but our pre-disposition, given our under-leverage balance sheet would be to use appropriate leverage. i.e. use debt and stay within the tramlines of 25-30%.

The second part of your question is, is that philosophy going to entail on my successor? And my successor CEO designate announced Friday, two weeks ago, Andy Briggs, well known to everybody in this room, a terrific colleague

and friend and a remarkably able individual. I am not going to entail him in a public meeting like this, but I have every expectation that the real world, Fitch and others, will remind him of the tramlines on how we operate and we all understand how leverage improves the return to equity holders and that is why we think, were there to be another transaction in the future, if we are currently under-leveraged we would take the opportunity to re-lever appropriately.

So listen, I am going to end. I can almost smell the food out there. I thank you for your time and interest in Phoenix, not a straightforward company, but a remarkable company as I said. We started this morning at 7 am as our Chairman said, and we issued a strong trading update in our RNS and the maths has been described by Nicholas, but also by Rakesh. Phoenix is firing on all cylinders and what does that mean? We deliver cash, we have real resilience and we have more opportunities for growth than we have ever had in the past.

Thank you very much indeed.

Applause

End