PHOENIX GROUP

*Cash*
*Resilience*
*Growth*

# A Sustainable Phoenix

Full Year Results 2018
5 March 2019

# Agenda

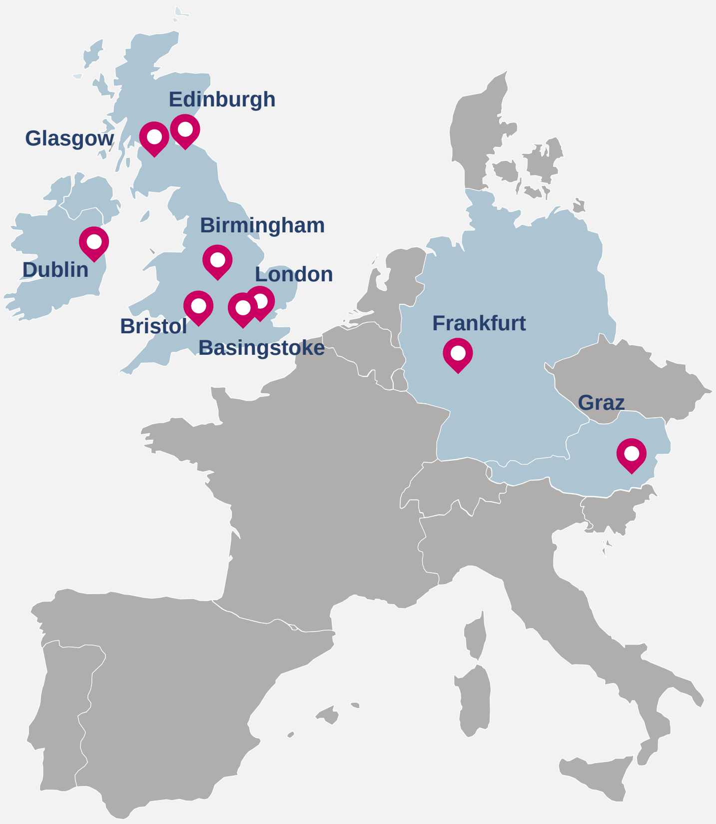
| | | |
|---|---|---|
| **Introduction** | Nicholas Lyons | Chairman |
| **Business update** | Clive Bannister | Group Chief Executive |
| **Financial review** | Jim McConville | Group Finance Director and Group Director, Scotland |
| **UK Heritage Business** | Andy Moss | Chief Executive, Phoenix Life and Group Director, Heritage Business |
| **UK Open and European Businesses** | Susan McInnes | Chief Executive, Standard Life Assurance Limited and Group Director, Open Business |
| **Outlook** | Clive Bannister | Group Chief Executive |
| **Q&A** | Nicholas Lyons | Chairman |

# Introduction

Nicholas Lyons

# Phoenix Group is the largest Life and Pensions Consolidator in Europe

**Our locations**




**Our size**

**£226bn**
Assets under administration

**10.0m**
Policies

**FTSE 100**

**Our life business**

**UK HERITAGE**
£118bn AUA

**UK OPEN**
£85bn AUA

**EUROPE**
£23bn AUA

# Business update

Clive Bannister

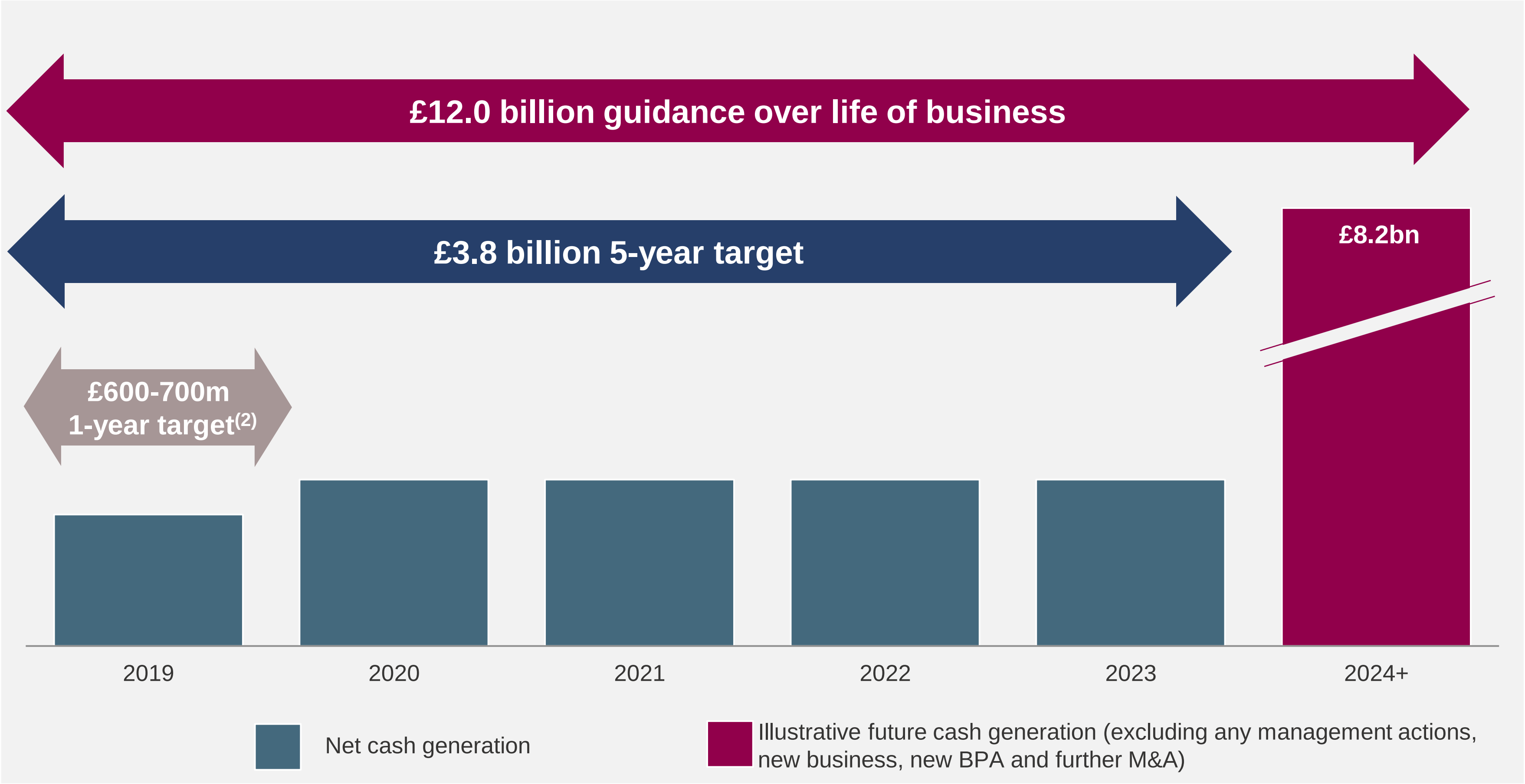
# 2018 highlights: a strong performance for the Phoenix Group

| | |
|---|---|
| **Strong cash generation supports dividend** | • Strong cash generation of £664 million in FY18<br>• £1.3 billion cash generation in 2017 and 2018, exceeding upper end of target range<br>• Final 2018 dividend of 23.4p, a 3.5% increase on the Final 2017 dividend |
| **Improved capital resilience** | • Solvency II surplus of £3.2 billion, 167% coverage ratio[(1)]<br>• A+[(2)] Fitch Rating affirmed in September; “stable” outlook and 22%[(3)] leverage ratio |
| **Improved customer outcomes** | • Fee caps on unitised non-workplace pensions<br>• 2 million Phoenix Life policies will move to a single, digitally enhanced outsourcer platform improving outcomes and delivering cost savings |
| **Delivered on strategic priorities** | • Transition of Standard Life Assurance businesses on track<br>• 3 BPA transactions completed in 2018 with £0.8 billion contracted liabilities<br>• AXA Wealth and Abbey Life integrations and on-shoring completed |

(1) Shareholder Capital Coverage Ratio excludes Own Funds and SCR of unsupported with-profits funds and PGL Pension Scheme
(2) Insurer Financial Strength rating of Phoenix Life Limited, Phoenix Life Assurance Limited and Standard Life Assurance Limited
(3) Leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1)

# New 1-year cash generation target of £600 - £700 million and 5-year target of £3.8 billion demonstrates sustainability

**Illustrative future cash generation(1)**

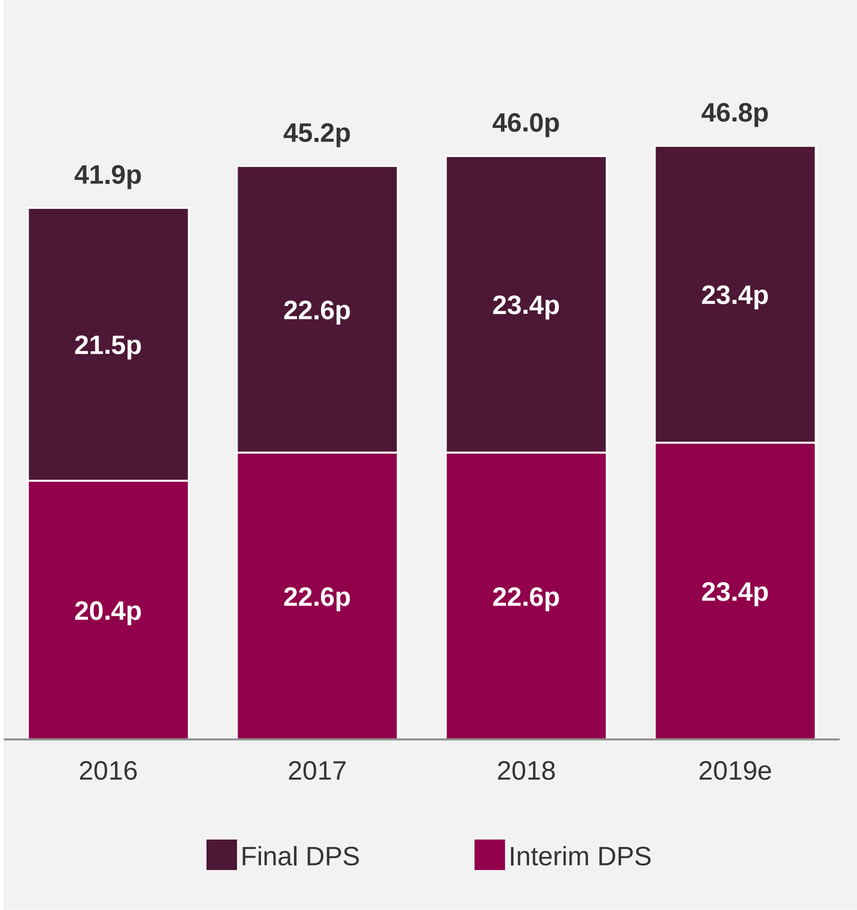



(1) Not to scale

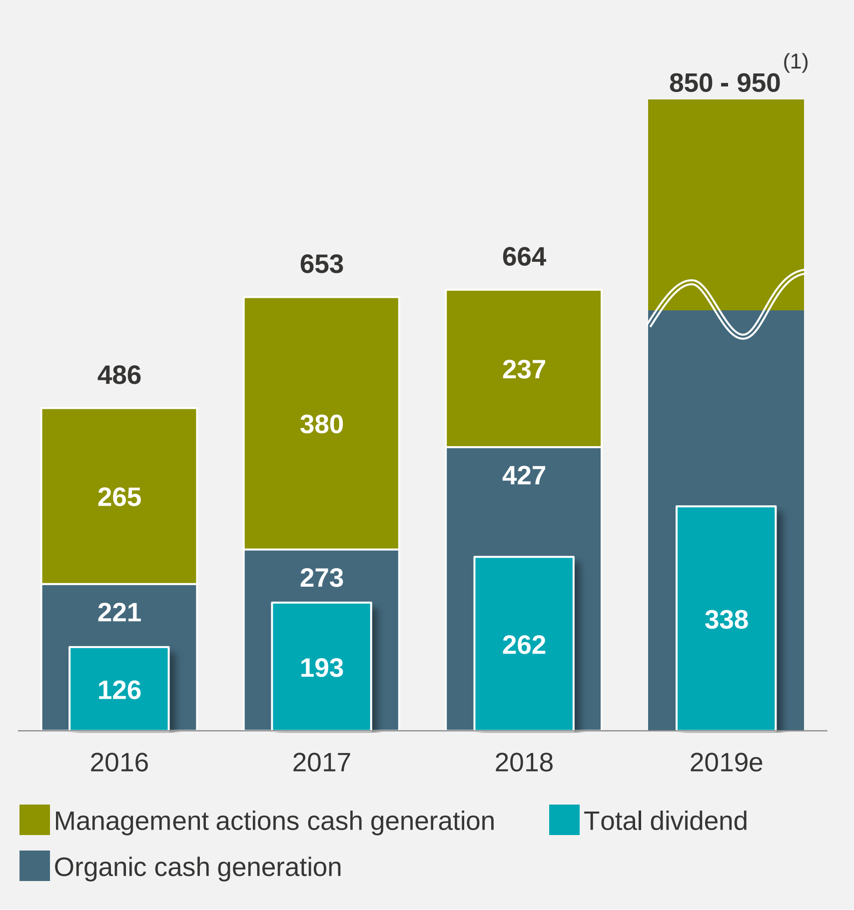
(2) 2019 cash generation target is net of the £250 million cost of capitalising Standard Life International Designated Activity Company for Brexit

# Stable and sustainable dividend with uplifts supported by acquisitions

## Dividend uplift from acquisitions

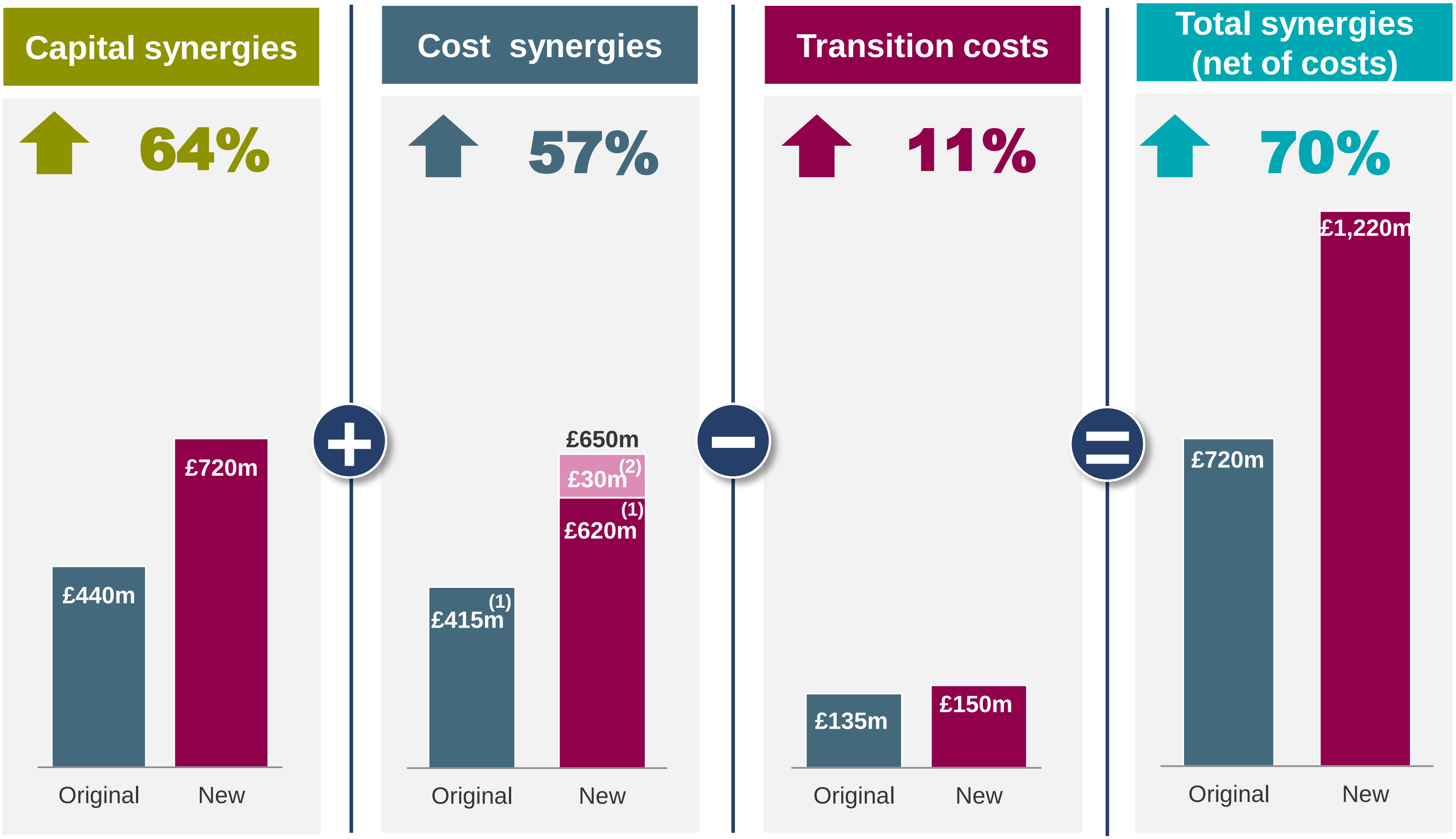



## Organic cash supports dividend (£m)




(1) 2019 cash generation target of £600 - £700 million is net of the £250m cost of capitalising Standard Life International Designated Activity Company for Brexit

# Confidence in delivery of synergy targets allows increase from £720 million to £1,220 million




(1) Cost synergies of £50m p.a. (original target) and £75m p.a. (new target) calculated after tax and capitalised over 10 years
(2) One-off cost synergies

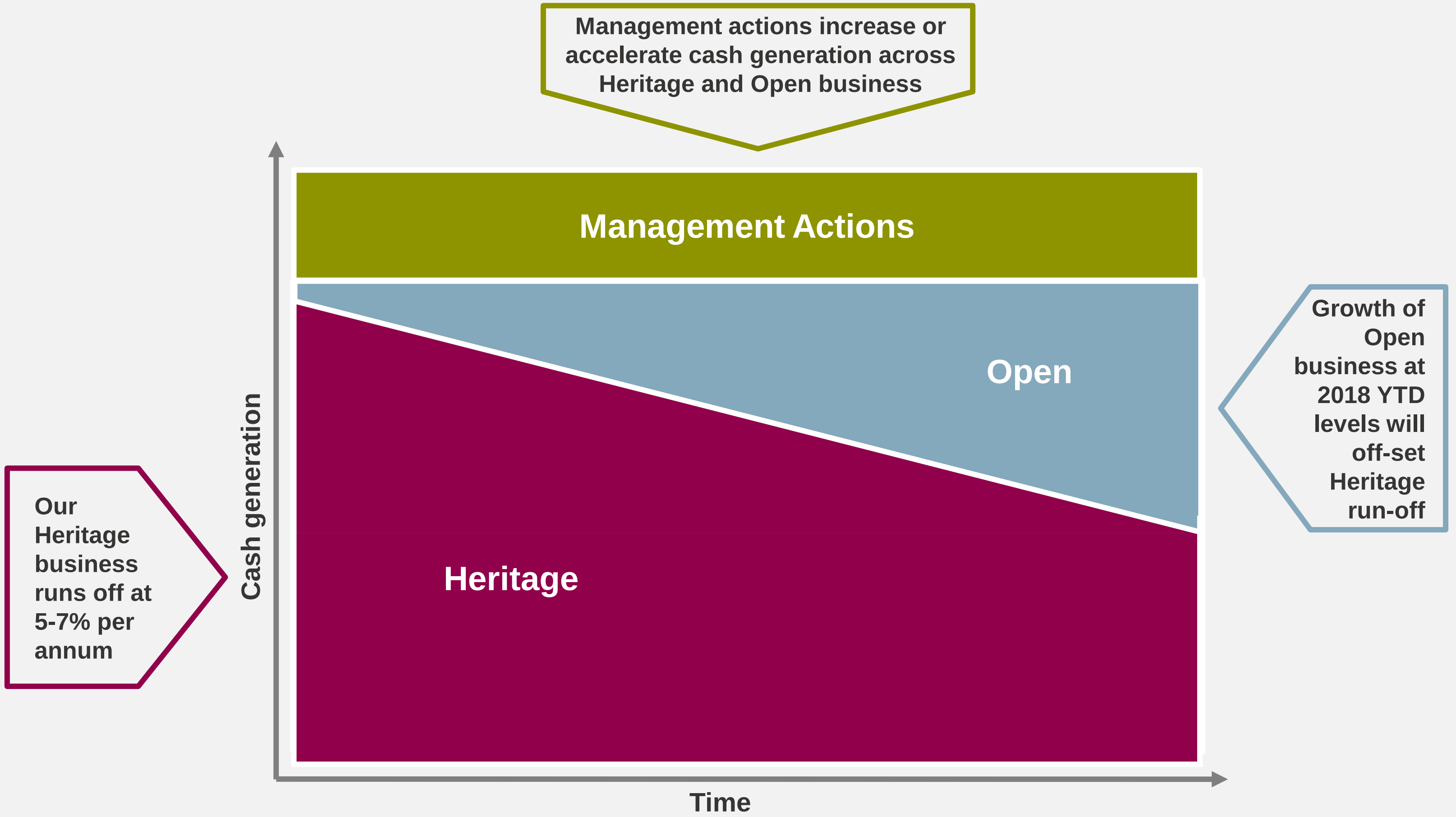
# We have a clear set of transition targets for the next 1000 days

| | Delivered to date | To be delivered | New target | Target increase |
|---|---|---|---|---|
| 1 Capital synergies[1] | £500m | £220m | £720m | ✓ £280m |
| 2 Cost synergies (p.a.) | £14m | £61m | £75m | ✓ £25m |
| 3 One-off cost synergies | £4m | £26m | £30m | ✓ £30m |
| 4 Transition costs[2] | £3m | £147m | £150m | ✓ £15m |

(1) Net of costs
(2) Net of tax

# New business brings improved sustainability to our organic cash generation

## Illustrative cash generation profile over time



# Financial review

Jim McConville

# Financial highlights

| | | FY18 | FY17 |
|---|---|---|---|
| Cash | Cash generation | £664m | £653m |
| IFRS | Operating profit before tax | £708m | £368m |
| Leverage | Leverage ratio (see Appendix I) | 22%[1] | 27% |

| | | FY18 | Pro forma FY17 |
|---|---|---|---|
| Group capital | Solvency II surplus (estimated) | £3.2bn[2] | £2.5bn |
| | Shareholder Capital Coverage Ratio (estimated) | 167%[2] | 147% |
| New business | UK Open and Europe new business contribution[3] | £154m | n/a |
| AuA | Assets under Administration (see Appendix II) | £226bn | £240bn |
| Dividends | Final dividend per share | 23.4p | 22.6p[4] |

(1) Leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1)

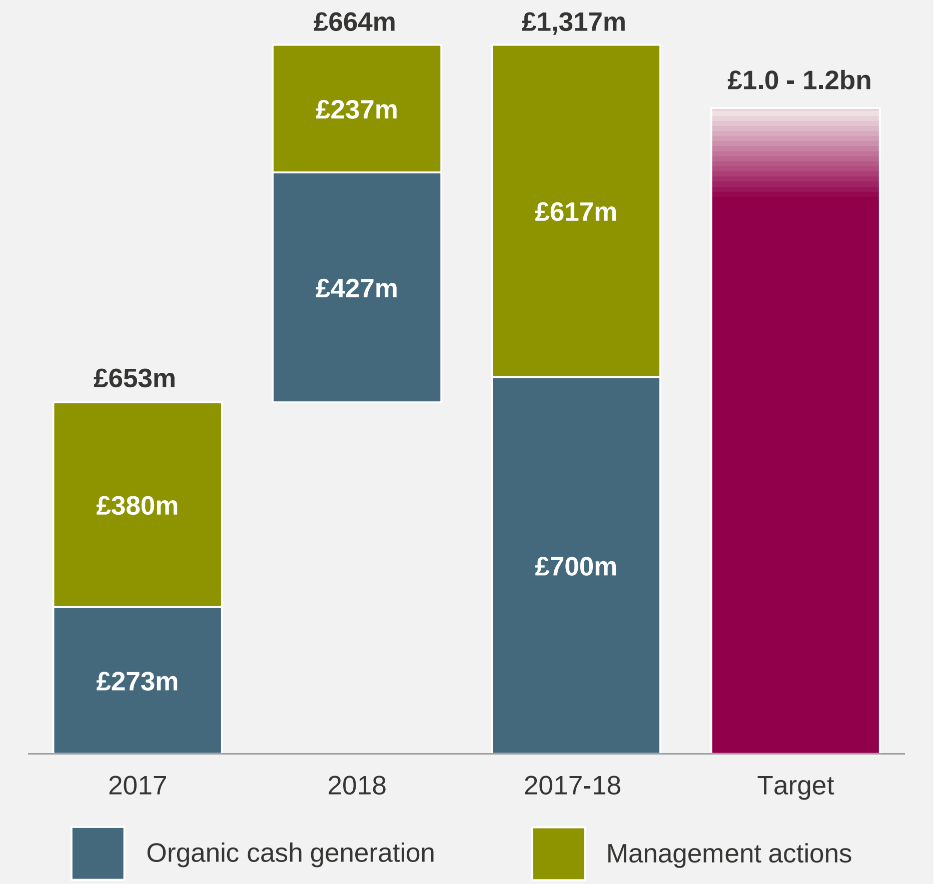
(2) The Solvency II capital position is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II Surplus and the Shareholder Capital Coverage ratio would increase by £0.1 billion and 3% respectively

(3) "New business contribution" is the increase in Solvency II Own Funds arising from new business written in the period excluding risk margin and contract boundary restrictions for full year 2018

(4) Rebased to take into account the bonus element of the rights issue completed in July 2018

# Phoenix delivered £1.3 billion cash generation in 2017-2018 and exceeded the upper end of the target range

## Phoenix cash generation




## Organic cash generation

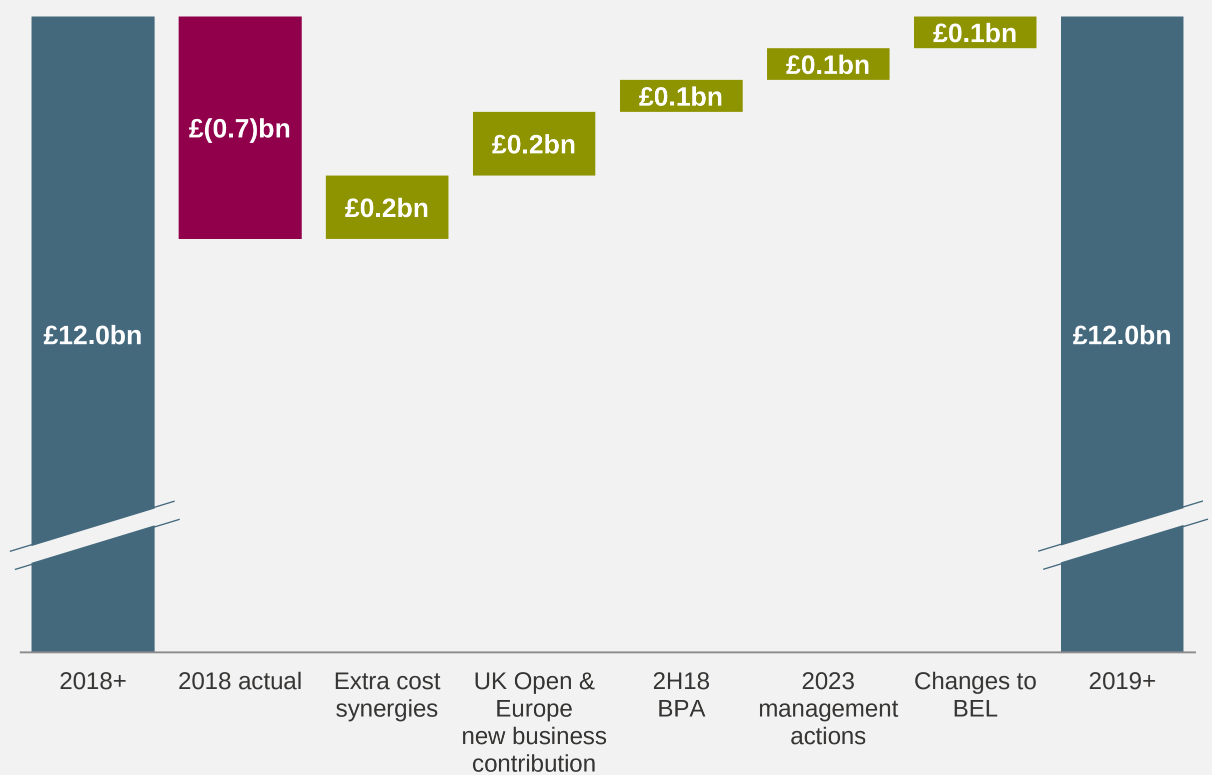
- Organic cash generation emerges naturally as business runs off
- Comprises unwind of capital requirements and prudent margins
- Dependable

## Management actions

- Cash generation enhanced through management actions which either:
  - Increase overall cash flows; or
  - Accelerate cash flows
- Average at 1/3rd of annual cash generation over long term

# Cash generation guidance increased by £0.7 billion and excludes future new business, future BPA and M&A and management actions post 2024

## Future cash generation from in-force business




**Included in £12 billion cash generation:**

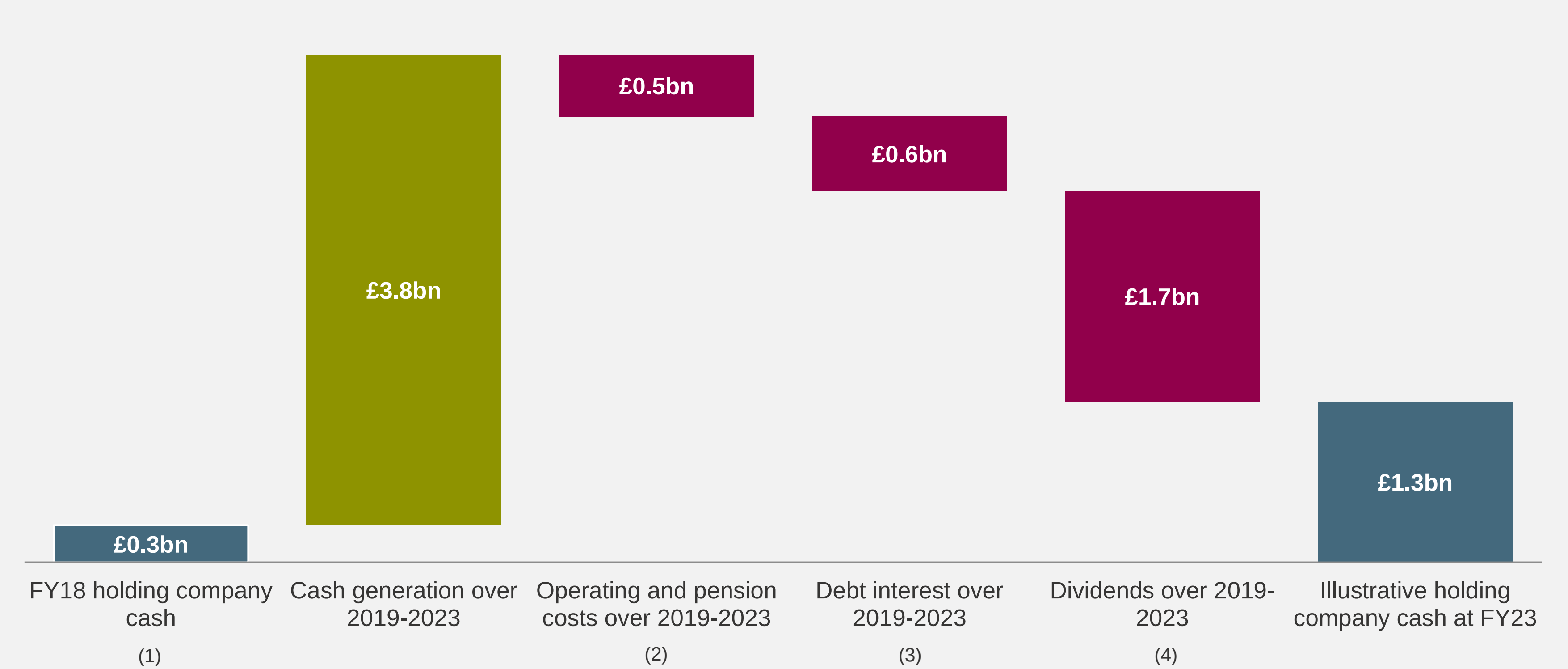
- Regular premiums on in-force policies
- Vesting annuities
- Management actions in 2019-23

**Excluded from £12 billion cash generation:**

- Incremental premiums on in-force policies
- New business from strategic partnership with Standard Life Aberdeen, Europe and SunLife
- Management actions 2024+
- Future BPA
- Future M&A

# Cash generation for the combined group supports dividend and builds cash available for growth through BPA and M&A

## Illustrative uses of cash from 2019 - 2023




(1) Phoenix FY18 holding company cash of £346m (see Appendix III)

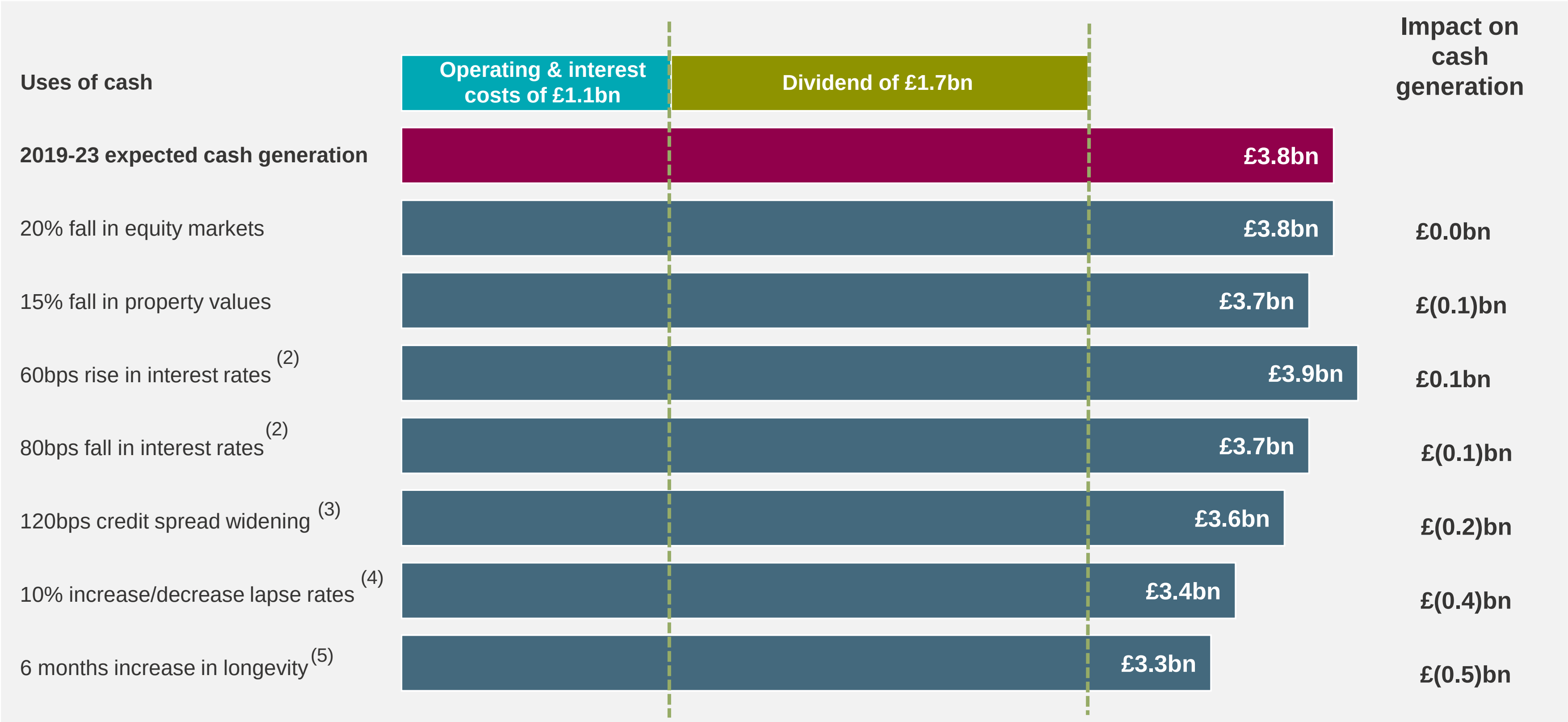
(2) Illustrative Phoenix operating expenses of £35m p.a. over 2019 to 2023. Phoenix pension scheme contributions estimated in line with current funding agreements, comprising £110m in respect of the Pearl scheme and £49m in respect of the Abbey Life scheme. Assumes integration costs of £150m (net of tax).

(3) Includes interest on the Group's listed bonds, excluding interest on PLL Tier 2 bonds which are incurred directly by Phoenix Life Limited. Assumes maturing debt during period is refinanced

(4) Illustrative dividend assumed at cost of £338m per annum over 2019 to 2023

# Resilience of cash generation increases confidence in our dividend

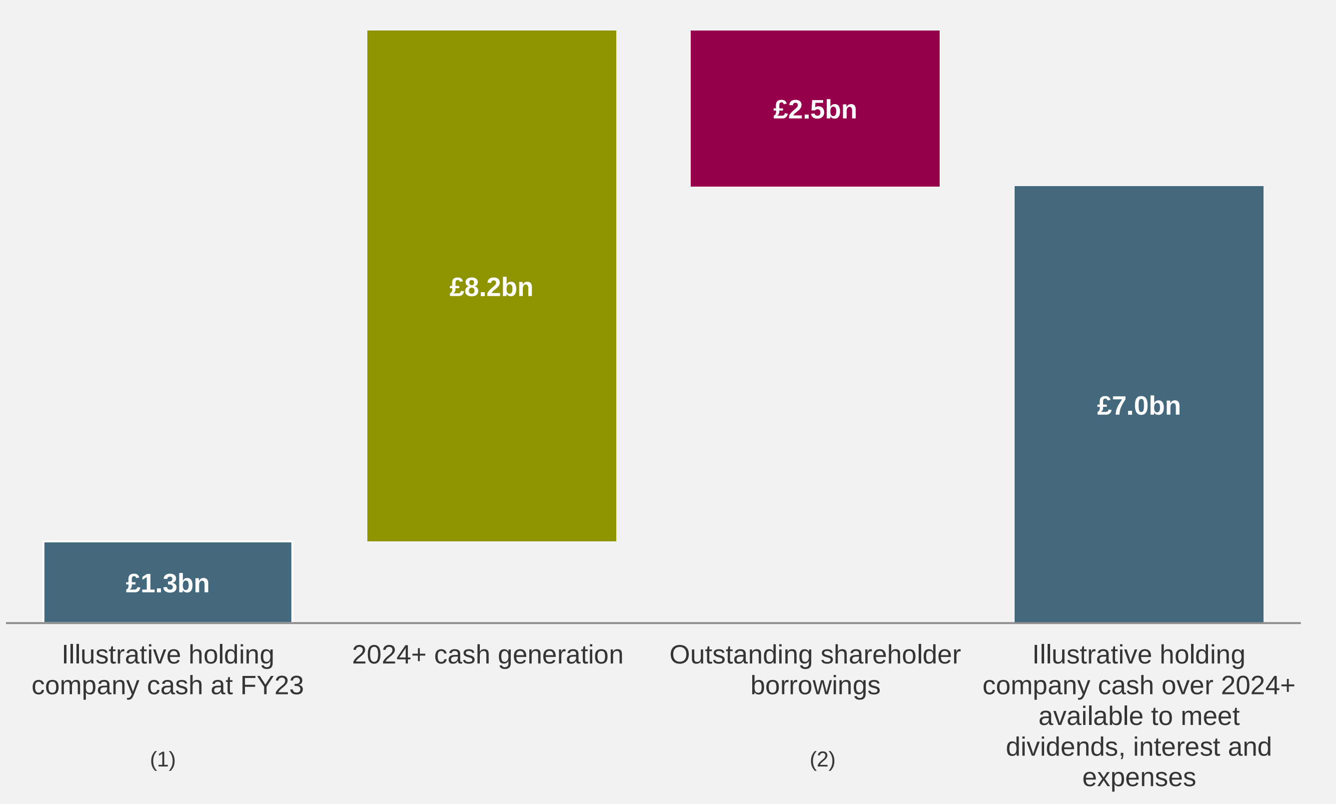
## Sensitivities for £3.8 billion expected cash generation between 2019-23[1]




(1) Scenario assumes stress occurs on 1 January 2019
(2) Assumes recalculation of transitionals (subject to PRA approval)
(3) Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for defaults/downgrades
(4) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups
(5) Applied to the annuity portfolio

# Beyond 2023, additional cash generation of the combined group will enhance sustainability of dividends

**Combined Group: Illustrative uses of cash from 2024 onward**

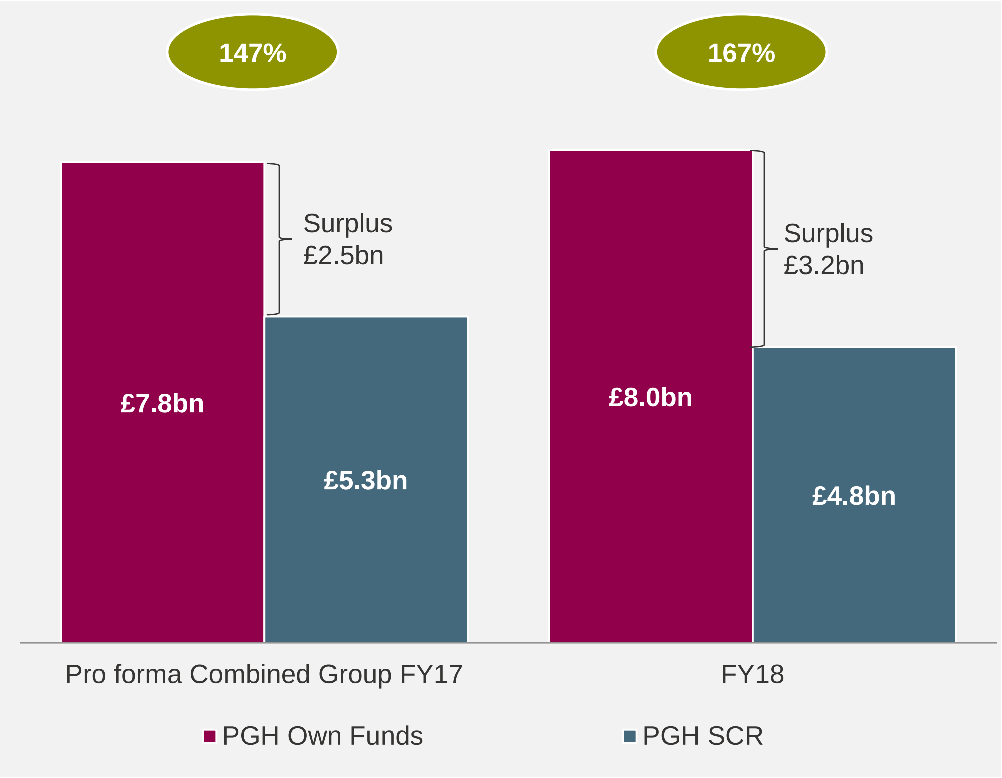



- There is an expected £8.2 billion of cash to emerge after 2023
- Strategic Partnership and further BPA will provide additional value from future new business
- No management actions assumed
- No M&A assumed

(1) Illustrative holding company cash as at FY23 as calculated on previous slide
(2) Total shareholder borrowings of £2.0bn as at FY18 plus RT1 of £0.5bn

# £3.2 billion Solvency II Surplus and 167% Shareholder Capital Coverage Ratio

## PGH Shareholder Capital position [(1)]



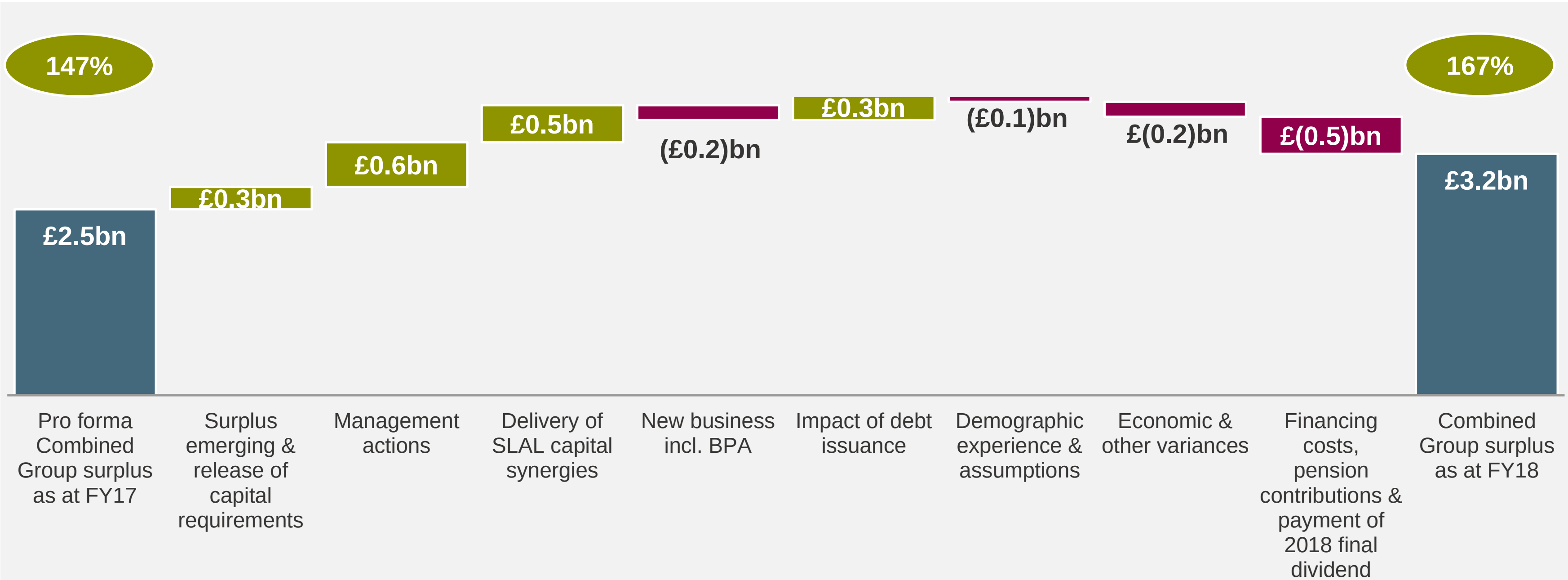

- Shareholder Capital Coverage Ratio calculation excludes Own Funds and SCR of unsupported with-profit funds and PGL Pension Scheme[(2)]
- FY18 SCR calculated using a combination of internal models and standard formula
- £2.1 billion of unrecognised surplus in unsupported with-profit funds and PGL Pension Scheme
- Impact of the payment of the £163 million final 2018 dividend included in Solvency II own funds

(1) The Solvency II capital position is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II Surplus and the Shareholder Capital Coverage ratio would increase by £0.1 billion and 3% respectively

(2) Shareholder Capital Coverage Ratio excludes both unsupported with-profit funds together with the PGL Pension Scheme, whose Own Funds exceeds its SCR. Where the Own Funds of a with-profit fund or Group pension scheme do not cover its SCR, those amounts are included in the Shareholder Capital surplus

# Strong capital position is resilient to market movements and new business is capital-light

## Change in PGH Solvency II surplus(1)




- New business strain primarily driven by BPA and vesting annuities. Open business is capital-light
- Economic variance driven by Phoenix's hedging strategy

(1) The Solvency II capital position is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II Surplus and the Shareholder Capital Coverage ratio would increase by £0.1 billion and 3% respectively

# New Business Contribution is a prudent proxy for cash generation

## New business contribution

| | £m |
|---|---|
| **UK Open** | 137 |
| **Europe** | 17 |
| **Total** | **154** |

- "New business contribution" is the increase in Solvency II Own Funds arising from new business written adjusted to:
  - exclude risk margin; and
  - remove contract boundary restrictions
- Net of "Day 1" acquisition costs
- Calculated as the discounted value of expected cash flows from new business sold
- Discount rate = risk free

## Conversion to future cash generation


- Acquisition costs are incurred in the year that new business is written and are covered by cash generation from the in-force business
- Future cash generation of circa £280 million emerges over the life of the contract
- 75% of this future cash generation emerges over the first 15 years
- £14 million of cash generation will emerge per annum in 2019 – 2034 from 2018 new business

# Modelling “the wedge” – Open business growth offsets Heritage run off

| Cash generation[1] £m | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Heritage run off** | **400** | **380** | **361** | **343** | **326** | **310** | **294** | **279** | **265** | **252** | **239** |
| Cash from 2018 NBC | | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Cash from 2019 NBC | | | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Cash from 2020 NBC | | | | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Cash from 2021 NBC | | | | | 16 | 16 | 16 | 16 | 16 | 16 | 16 |
| Cash from 2022 NBC | | | | | | 16 | 16 | 16 | 16 | 16 | 16 |
| Cash from 2023 NBC | | | | | | | 17 | 17 | 17 | 17 | 17 |
| Cash from 2024 NBC | | | | | | | | 18 | 18 | 18 | 18 |
| Cash from 2025 NBC | | | | | | | | | 18 | 18 | 18 |
| Cash from 2026 NBC | | | | | | | | | | 19 | 19 |
| Cash from 2027 NBC | | | | | | | | | | | 20 |
| **Open growth** | **0** | **14** | **29** | **44** | **60** | **76** | **93** | **111** | **129** | **148** | **168** |
| **Total** | **400** | **394** | **390** | **386** | **386** | **387** | **387** | **390** | **394** | **400** | **407** |

**Key assumptions used in this hypothesis:**

- **Heritage run-off rate: 5%**
- **Open growth rate: 4%**
- **In-force Open business cash generation offsets acquisition costs**
- **75% new business cash generation emerges over first 15 years**

(1) Model is illustrative only and excludes cash generation on in-force UK Open and European businesses and management actions

# Phoenix's capital position illustrates resilience to risk events

## PGH Solvency II Shareholder Capital Coverage Ratio (SCCR) sensitivities[1]

| | PGH SII surplus | SCCR | Impact on Solvency II SCCR |
|---|---|---|---|
| **FY18 Solvency II** | **£3.2bn** | **167%** | |
| 20% fall in equity markets | £3.2bn | 170% | **+3%** |
| 15% fall in property values | £3.1bn | 165% | **-2%** |
| 60bps rise in interest rates[2] | £3.2bn | 170% | **+3%** |
| 80bps fall in interest rates[2] | £3.2bn | 164% | **-3%** |
| 120 bps credit spread widening[3] | £3.0bn | 166% | **-1%** |
| 10% increase/decrease lapse rates[4] | £2.8bn | 161% | **-6%** |
| 6 months increase in longevity[5] | £2.7bn | 158% | **-9%** |

Target range
140%
180%

(1) Scenario assumes stress occurs on 1 January 2019
(2) Assumes recalculation of transitionals (subject to PRA approval)
(3) Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for defaults/downgrades
(4) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups
(5) Applied to the annuity portfolio

# Strong FY18 operating profit of £708 million

| £m | FY18 | FY17 |
|---|---|---|
| UK Heritage Business | 640 | 372 |
| UK Open Business | 41 | (5) |
| Europe | 22 | - |
| Service company | 25 | 21 |
| Group costs | (20) | (20) |
| **Operating profit before tax** | **708** | **368** |
| Investment return variances and economic assumption changes | 90 | (93) |
| Amortisation of intangibles | (207) | (119) |
| Non-operating items | (38) | (80) |
| Finance costs | (114) | (104) |
| **Profit / (loss) before tax attributable to owners** | **439** | **(28)** |

- Includes 4 month post completion results of the Standard Life Assurance businesses
- UK Heritage operating profits enhanced by a £168 million positive impact from changes in longevity assumptions
- Investment return variances include net positive economic variances on hedging positions
- Group now has £4.3 billion of intangible assets being amortised
- Other non-operating items includes a gain on acquisition akin to “negative goodwill” which is offset by one-off costs and provisions

# UK Heritage Business

Andy Moss

# Phoenix specialises in the safe and efficient management of Heritage business

## UK HERITAGE BUSINESS

*Products that are not actively marketed to customers*

| FY18 financial metrics[1] | £ |
|---|---|
| Assets under administration | 118bn |
| Gross inflows:<br>• Vesting annuities<br>• BPA<br>• Existing business | 3.7bn<br>0.7bn<br>0.8bn<br>2.2bn |
| Net outflows | 7.1bn |
| Net outflows as a % of opening AUA | 5% |
| Management actions – Phoenix Life | 570m |
| Capital synergies - SLAL | 500m |
| Operating profit (post acquisition) | 640m |

### Key messages

- Track record of delivering value to both shareholders and customers
- Heritage business generates dependable organic cash flows as it runs off
- Cash generation is enhanced by the delivery of management actions
- Future management actions will be delivered across the Heritage and Open businesses

(1) All financial metrics include the full year performance of the acquired Standard Life Assurance businesses on a pro forma basis unless otherwise stated

# Growth through BPA extends Phoenix's long-term cash generation

## Phoenix's approach to BPA is:

- **Selective**: We are not chasing volume
- **Proportionate**: Target £0.5 - £1.0 billion liabilities per annum i.e. circa £100m of capital allocation
- **Funded from our resources**: We won't raise equity to fund BPA

## Key 2018 BPA stats

| £800m | £100m | £300m[1] |
|---|---|---|
| Contracted liabilities | Day 1 capital allocation | Long term cash generation |

## BPA market is growing rapidly

- In 2018 >£20 billion of BPA completed
- Phoenix completed 3 transactions in 2018; circa 4% of the market
- Expect market to be a similar size in 2019

## Phoenix is well placed to benefit from growth

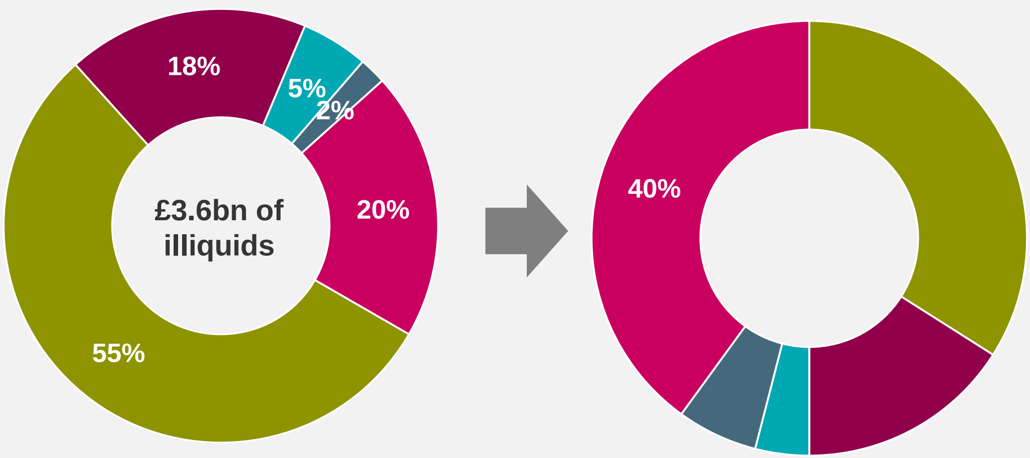
- ✓ Established market participant
- ✓ Developing capability for deferred annuities
- ✓ Agile approach leveraging M&A skills
- ✓ Strong relationship with reinsurers
- ✓ Ability to source illiquid assets

(1) Long term cash generation from BPA includes the benefit of moving to an illiquid asset portfolio

# Illiquid asset strategy is a key management action and supports BPA

## We continue to target a 40% allocation to illiquids

**FY18 actual** | **Target**



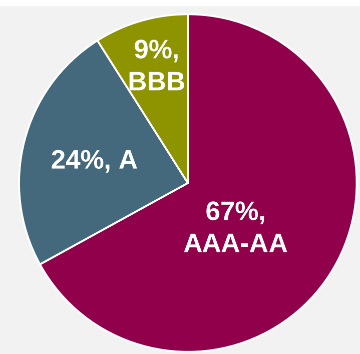

- Illiquid assets
- Corporates (GBP)
- Cash & gilts (incl. derivatives)
- Sovereigns and supranationals
- Corporates (other currencies)

| c.£3.6bn of illiquids at 31 Dec 2018 comprised | |
|---|---|
| ERM | 57% |
| Private placements | 18% |
| Local Authority Loans | 9% |
| CRE Loans | 11% |
| Infrastructure debt | 5% |

**£1.4bn illiquid assets originated in FY18**

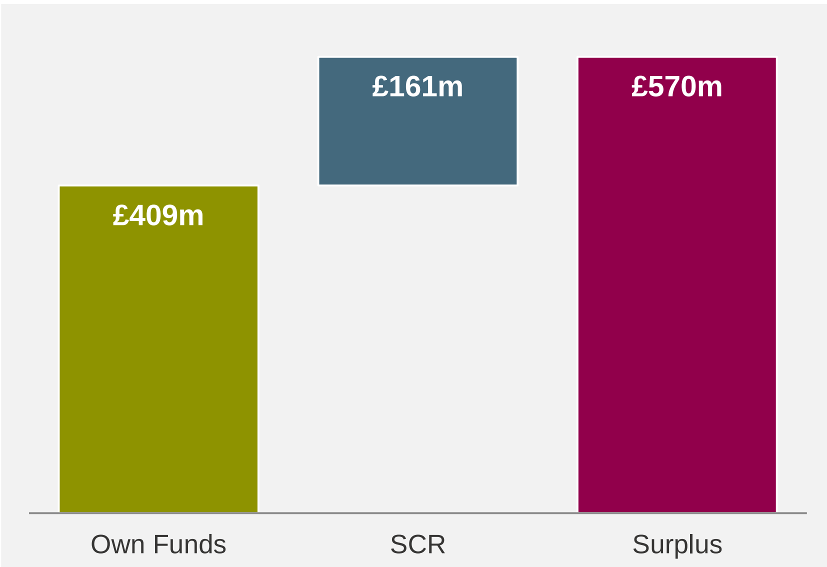
**Delivered c.£130m Solvency II benefit**

**£1.4bn illiquid assets split by credit rating**



# Management actions have added £570 million to Solvency II surplus

## Solvency impact of management actions




**Increasing SII own funds increases overall cash flows**

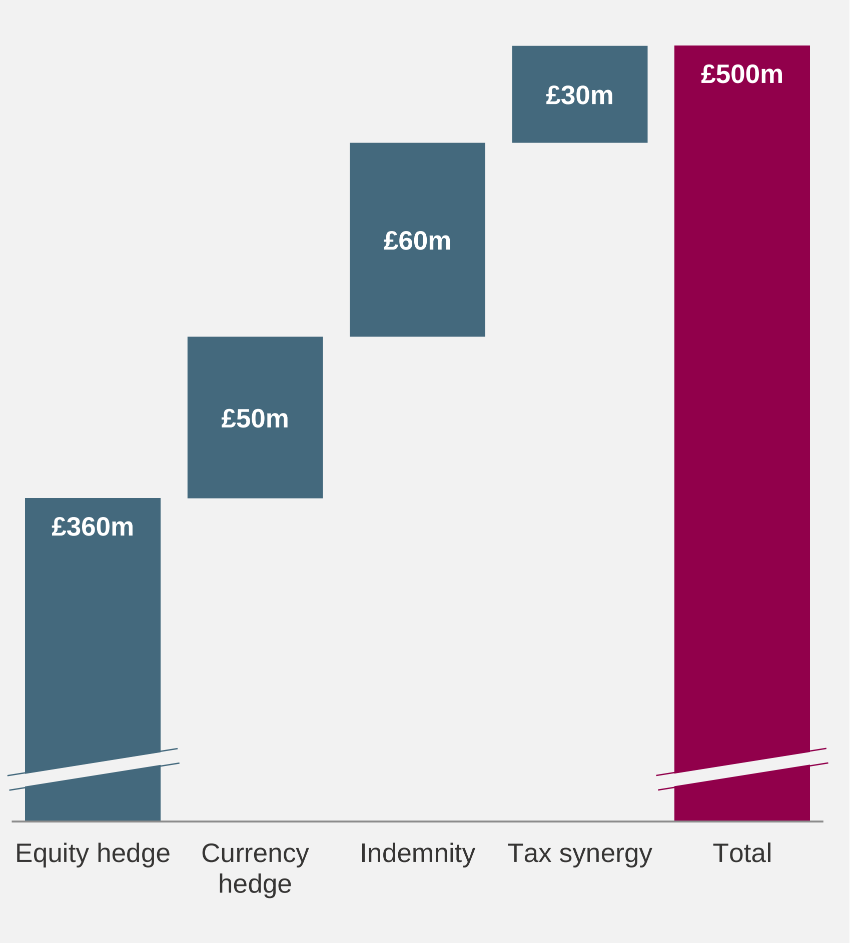
**Reducing SII SCR accelerates cash flows**

## 2018 management actions

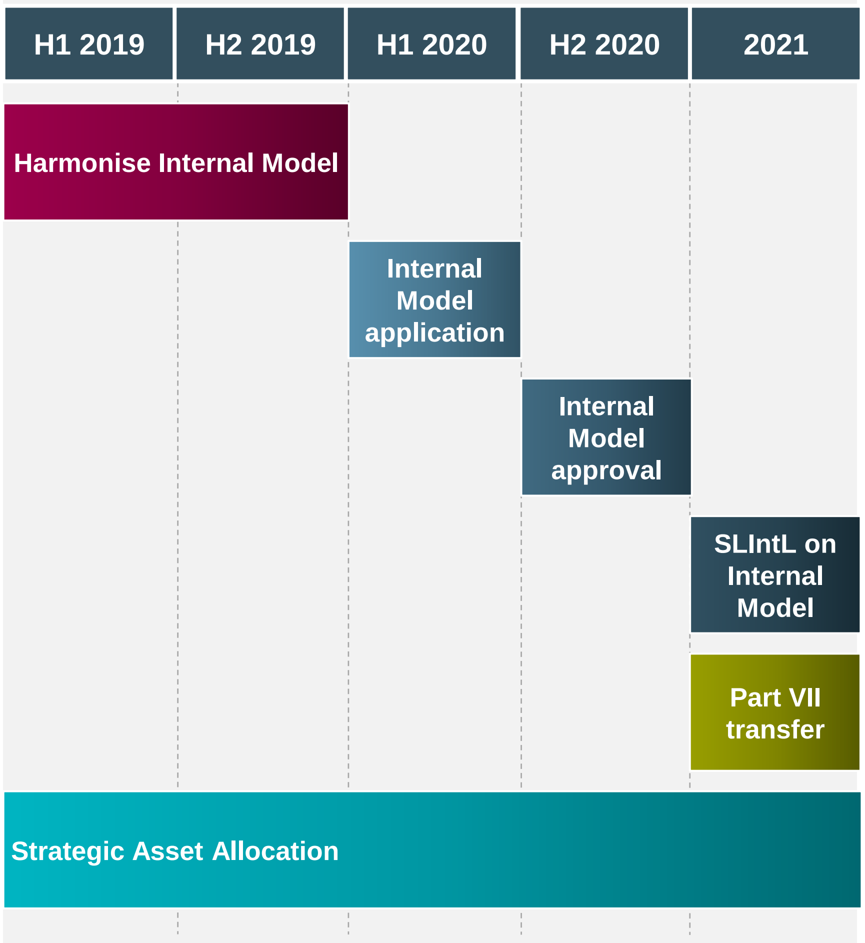
- ✓ Investment of annuity backing assets in illiquid asset classes
- ✓ Expense reduction from move to single outsourcer and investment in digital journey
- ✓ Investment fee reductions
- ✓ Abbey Life Internal Model approval
- ✓ Abbey Life Part VII transfer
- ✓ Conclusion of Abbey enforcement action
- ✓ Interest rate hedging

# We have already delivered £500 million of capital synergies and have increased our target to £720 million

## £500m capital synergies now delivered




## Future management actions



# Continued delivery of strong service for Phoenix Life customers

## Customer actions

- £230 million increase in with-profit estate available for distribution through management actions
- On-going charges and exit fee caps for non-workplace pensions
- Review of investment strategy by asset class to improve returns and reduce costs
- Direct buyback of small value annuities in payment where the annuity commenced pre Pension Freedoms
- Digital journeys expanded to allow more customers to encash online

## Customer service metrics – Phoenix Life

| | FY18 | Full year target(1) |
|---|---|---|
| **Speed of pension transfer pay-outs (ORIGO)** | 10.73 days | <12 days |
| **Customer satisfaction** | 93% | 90% rating satisfactory or above |
| **FOS overturn rate(2)** | 17% | <33% |
| **Service complaints (as a percentage of customer transactions)** | 0.59% | <0.6% |

(1) Targets for "Speed of pension transfer pay-outs" and "FOS overturn rate" based on external industry metrics.
(2) FOS overturn rate shown as at H2 2017 and H1 2018 as FY 2018 figure unavailable at the time of production

# Investment in digitalisation will improve service offering and efficiency

| Single outsourcer model delivers |
|---|
| ✓ An enhanced digital servicing offering for all Phoenix customers |
| ✓ A reduction in per policy administration costs |
| ✓ A sustainable outsourcer model for policy administration in Phoenix |
| ✓ A model that can adapt to future changes in a fast and cost efficient manner |

| Key statistics | |
|---|---|
| **2.0 million** | Policies will be transferred to Diligenta by end of 2021 |
| **£100 million** | Solvency II benefit |
| **75%** | Of Phoenix Life customers will be digitally enabled |

# UK Open and European Businesses

Susan McInnes

# Phoenix is committed to growing its capital-light UK Open business

## UK OPEN BUSINESS

*Products that are actively marketed to new and existing customers*

| FY18 financial metrics[1] | £ |
|---|---|
| Assets under administration | 85bn |
| Gross inflows:<br>• New business[2]<br>• Existing business | 10.7bn<br>7.4bn<br>3.3bn |
| Net inflows | 3.7bn |
| Net inflows as % of opening AUA | 4% |
| New business contribution | 137m |
| Operating profit (post-acquisition) | 41m |

### Key messages

- Phoenix's Open business comprises a range of modern capital-light products
- Open business continues to grow bringing scale to Phoenix
- Open business will dampen the run off of the Heritage business and extend our dividend paying capabilities
- Phoenix will work closely with Standard Life Aberdeen to strengthen the Standard Life customer and workplace propositions

(1) All financial metrics include the full year performance of the acquired Standard Life Assurance business on a pro forma basis unless otherwise stated
(2) New business comprises new premiums to new and existing policies. It includes single premiums and transfers to all open products, and regular premiums for new joiners and increased contributions to Workplace schemes

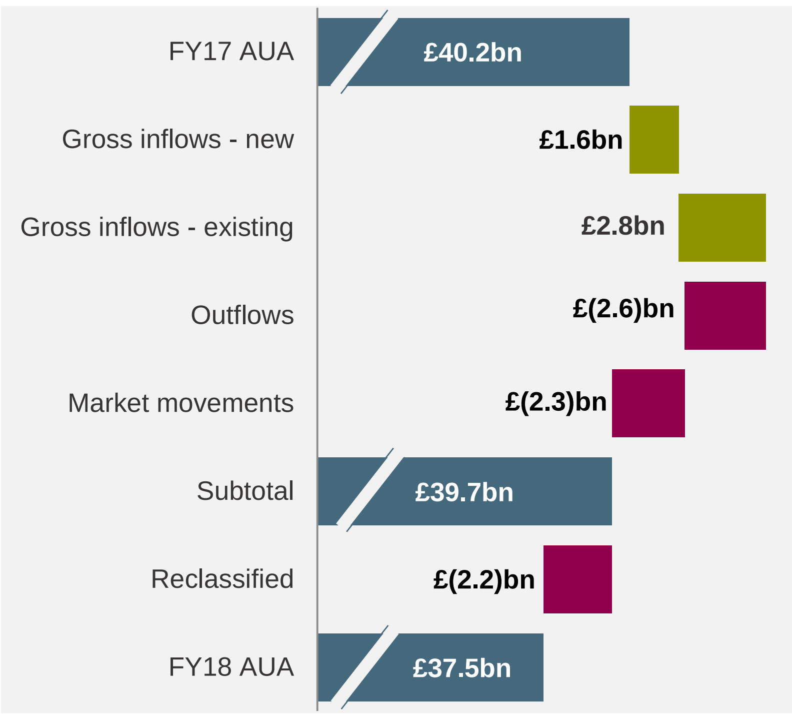
# Workplace is the engine for customer acquisition

## Key statistics

**37,500 schemes**

**15,000 active schemes(1)**

**1.9 million customers**




(1) Active schemes are those which have a regular contribution

## 2018 performance driven by:

- New business flows driven by auto enrolment increases, new schemes and new customers joining existing schemes
- Reclassified business reflects people leaving their employer but staying with Standard Life
- Volatile markets in Q418 drove negative market movements

## Looking to the future:

- Majority of new flows will continue to come from existing schemes
- We will look to continue to win new mandates, investing in our offering to ensure we remain competitive and working closely with employers and their advisers.
- Future opportunity from ongoing market shift towards Master Trust arrangements

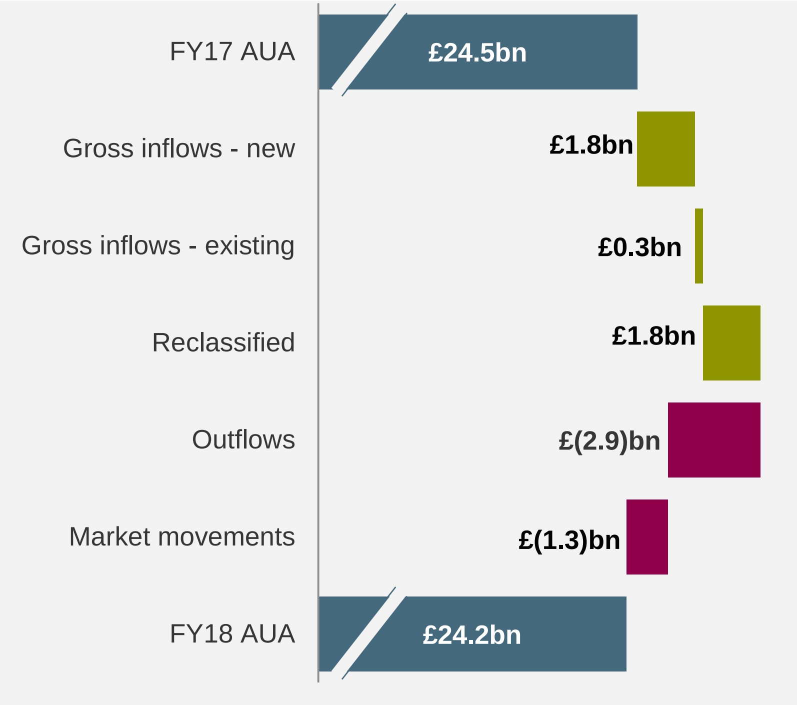
# Retail pension supports customer retention and retirement

## Key statistics

**750,000 customers**

**14,000 new drawdown policies**

**c.£1.8bn pa from Workplace leavers**




## 2018 performance driven by:

- Natural growth as leavers from workplace schemes move to retail pensions
- c£2 billion gross inflows despite industry wide slowdown in DB to DC transfers
- Growth in flexible drawdown product

## Looking to the future:

- Strong gross inflows expected across advised and non-advised business as we retain customers through the accumulation and decumulation phases
- Well established adviser franchise with wide range of investment options
- Strong customer service digital proposition

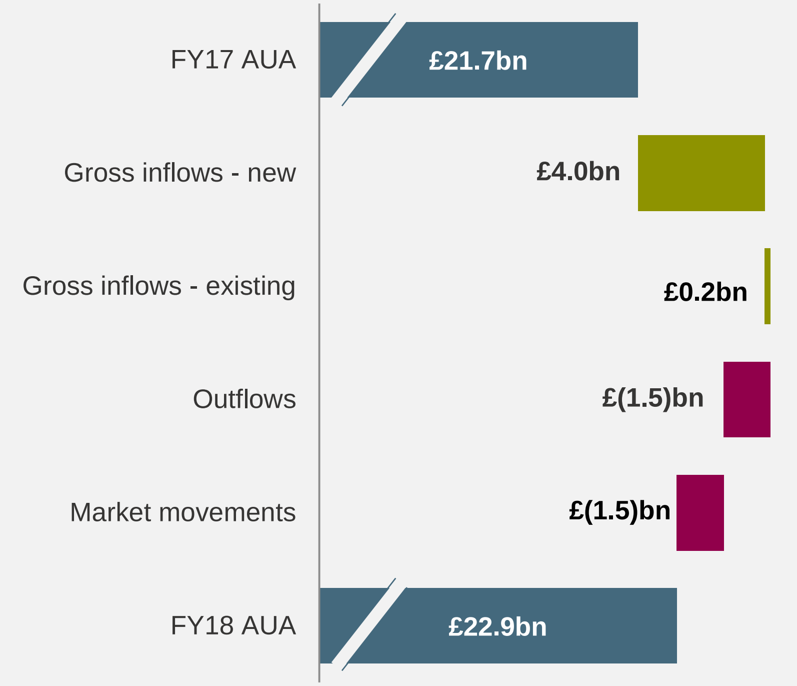
# Wrap products have benefited from growth in the advisor platform market

## Key statistics

**No. 1 in the market for advised gross and net flows**

**No. 1 in the market for advised AUA**

**100,000 customers**




## 2018 performance driven by:

- Strong new business flows delivered by strategic partnership
- 2018 growth slower than 2017 reflecting industry wide market slowdown, including the reduction in DB to DC transfers
- Competitive market but strong brand

## Looking to the future:

- Well established and deeply integrated relationships with a number of advisers
- Wide range of products on the platform allows advisers to serve a large client base

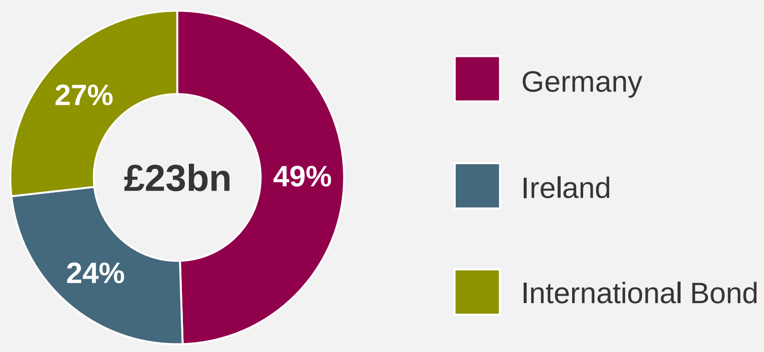
# European business provides optionality and is Brexit ready

## EUROPEAN BUSINESS

*Includes both Heritage and Open business across Germany and Ireland*

| FY18 financial metrics(1) | £ |
|---|---|
| Assets under administration | 23bn |
| Gross inflows | 2.0bn |
| Net inflows | 0.2bn |
| New business contribution | 17m |
| Operating profit (post-acquisition) | 22m |

### Europe product mix (AuA)




**Brexit preparations**

- Ready for any Brexit scenario
- £250 million capital injected into Irish subsidiary
- Court Hearing for Part VII of German and Irish UK Branch businesses on 19 March

(1) All financial metrics include the full year performance of the acquired Standard Life Assurance business on a pro forma basis unless otherwise stated

# Continued delivery of strong service for Standard Life customers

## Customer actions

- Continued investment in digital proposition:
  - 3 million logins to our mobile app
  - 11,000 schemes supported into QWPS(1), with 1.7 million new joiners auto-enrolled into them by employers
  - 14,000 policies moved into drawdown, with majority using digital platform
  - 8,000+ customers accessed Telephony Guidance service to discuss retirement options
- All customer facing colleagues completed extensive vulnerable customer training programme which won 'Excellence in skills in Learning and Development' at the 2018 Contact Centre Association Awards
- Hosted 44 retirement events in 19 locations, attended by circa 2,000 customers and their guests

## Customer service metrics – Standard Life

| | FY18 |
|---|---|
| **Speed of pension transfer pay-outs (ORIGO)** | 11.0 days |
| **FOS overturn rate(2)** | 17% |
| **Net Easy Customer Effort Score(3)** | 72% |

(1) QWPS are Qualifying Workplace Pension Schemes, which comply with Auto Enrolment regulations
(2) FOS complaints data is published half yearly; the annual overturn rate has been derived by calculating an average from sequential half year results combined. Please note these results were during a reporting period where some of the complaints will be Standard Life Aberdeen products or services
(3) Internally calculated measure of how easy customers find it to interact with our business with 0 being very difficult and 10 being very easy

# Outlook

Clive Bannister

# Phoenix is bringing greater sustainability to its business in three ways

**1. Retaining customers and assets:**

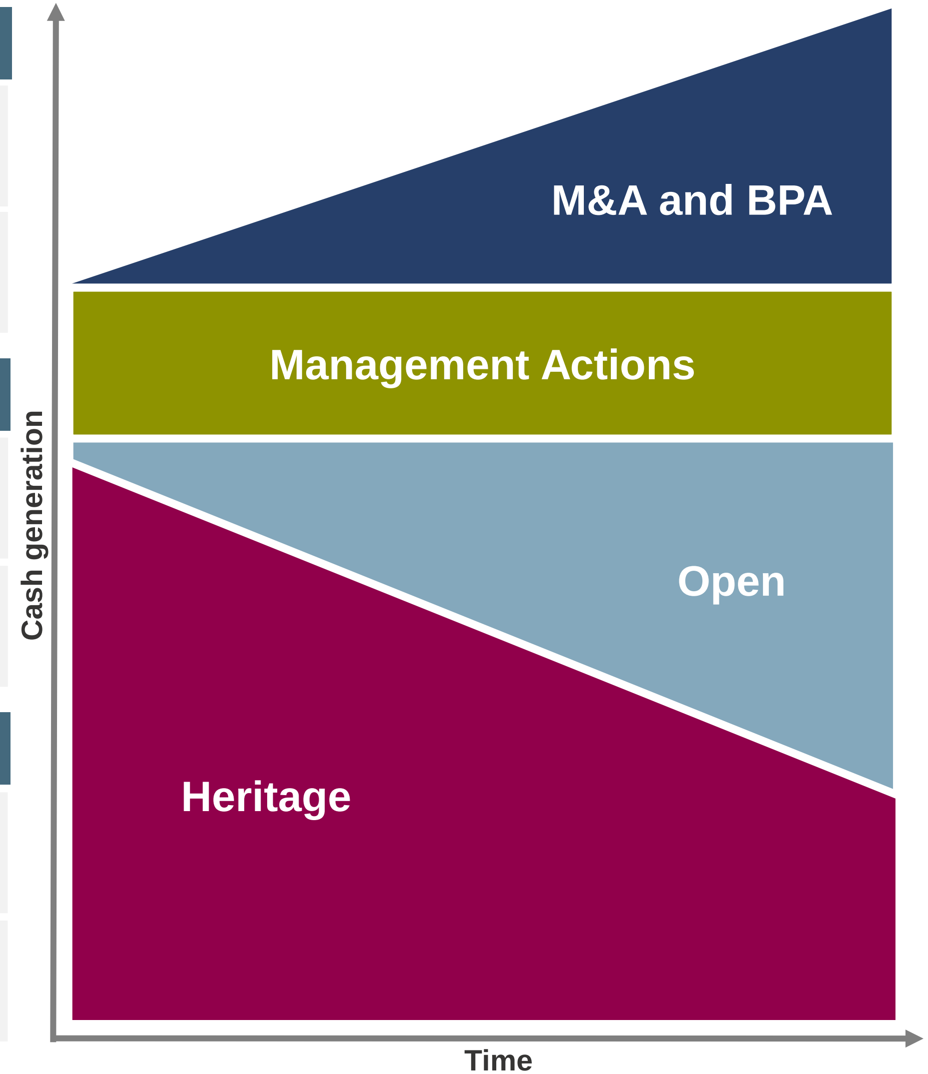
- ✓ Enrichment of product offering
- ✓ Improving customer outcomes and experience

**2. Growing customers and assets:**

- ✓ New business under strategic partnership
- ✓ BPA

**3. Improving profitability:**

- ✓ Efficient operating model
- ✓ Scale brings buying power and influence



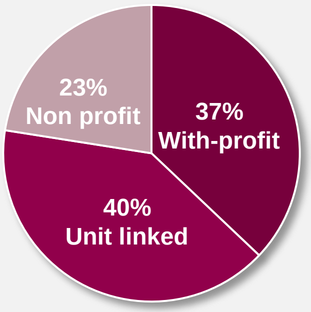
# Phoenix will grow through further M&A and we are ready to take opportunities as they arise

## Drivers of consolidation

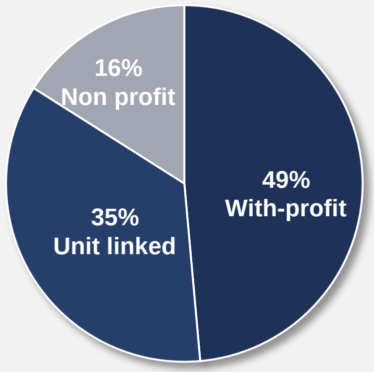
- Trapped capital
- Stranded costs
- Specialist skills
- Reputational risk

## Market size

**UK: ~£380bn**




**UK, GER, IE: ~£540bn**




**Phoenix readiness**

## Gating items

**MANAGEMENT BANDWIDTH**

Head office specialises in assessment of M&A transactions

**FUNDING**

£1.0 billion war chest

**REGULATION**

Track record of remedying past conduct issues

# Phoenix has a clear set of strategic priorities for 2019

| | |
|---|---|
| **Financial targets** | • Meet or exceed the 2019 cash generation target of £600 - £700 million<br>• Maintain strong solvency position and investment grade rating |
| **Transition Standard Life Assurance** | • Complete Phase 1 and progress Phases 2 and 3 of the transition programme<br>• Deliver capital and cost synergy targets |
| **Improve customer outcomes** | • Maintain expected high standard of customer service<br>• Continue to enhance the customer experience |
| **New business** | • Deliver new business initiatives<br>• Protect value in the Group |
| **Growth** | • Consider further value accretive acquisitions<br>• Continue to selectively participate in the BPA market |

# We are building a more sustainable Phoenix

| CASH | RESILIENCE | GROWTH |
|---|---|---|
| ✓ **£12 billion of future cash generation from in-force business** | ✓ **£3.2 billion SII surplus; 167% shareholder ratio(1)** | ✓ **Continued growth of Open business will offset Heritage run-off** |
| ✓ **New 1 year and 5 year targets set** | ✓ **Hedging provides resilience to market risks** | ✓ **£1.0 billion funding capacity for BPA and M&A** |

**A SUSTAINABLE PHOENIX**

(1) Shareholder Capital Coverage Ratio excludes Own Funds and SCR of unsupported with-profits funds and PGL Pension Scheme

# Q&A

# Appendices


I Leverage ratio

II Movement in assets under administration

III Movements in holding company cash and cash equivalents

IV Change in Life Company Free Surplus

V Estimated Solvency II surplus and SCR coverage ratio

VI SCR by risk type and Own Funds Tiering

VII Regulatory Coverage Ratio sensitivities

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XI Total debt exposure by country

XII Credit rating analysis of debt portfolio

XIII Corporate structure as at 31 December 2018

XIV Outline of current debt structure

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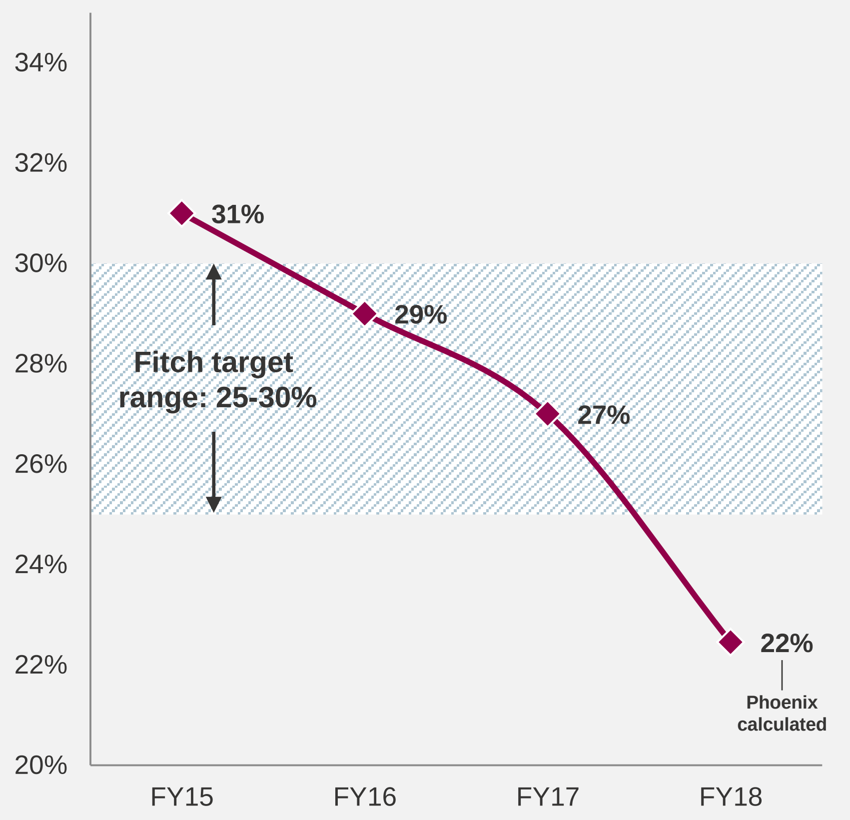
# Appendix I:
# Leverage ratio

## Fitch leverage ratio(1)




## Leverage ratios

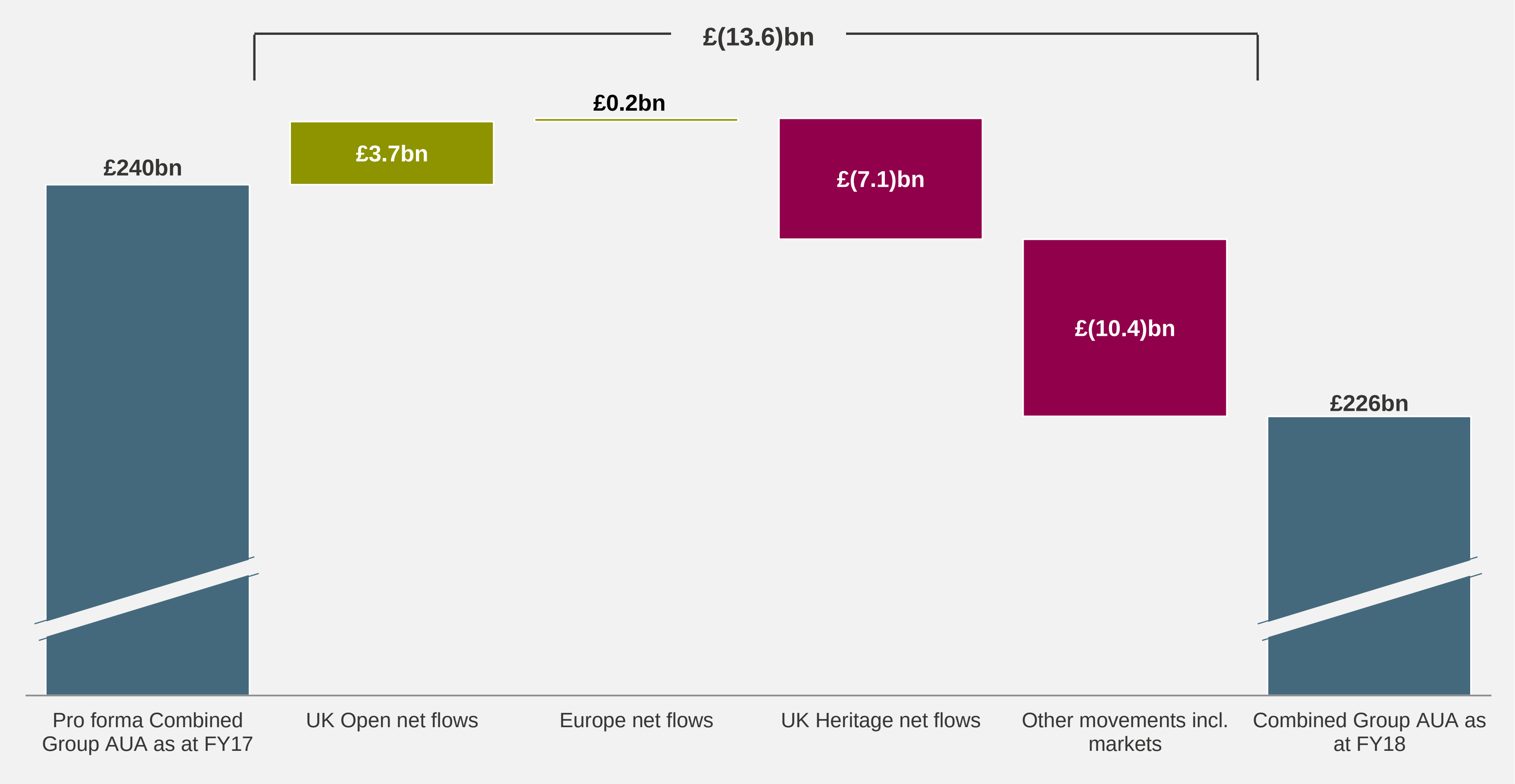
- Phoenix estimate a FY18 leverage ratio calculated on a Fitch(1) basis of 22%
- We estimate our FY18 leverage on an IFRS(2) basis to be 33%.
- The key differences between these ratios are the treatment of the Restricted Tier 1 bond and unallocated surplus

## Funding capacity

- Our funding capacity is driven by a combination of own cash, leverage capacity and our target solvency range
- We estimate a current funding capacity for inorganic growth of circa £1.0 billion

(1) The Fitch leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1)
(2) IFRS leverage calculation = debt (all debt including RT1) / debt + equity (Shareholder equity only)

# Appendix II:
# Movement in assets under administration



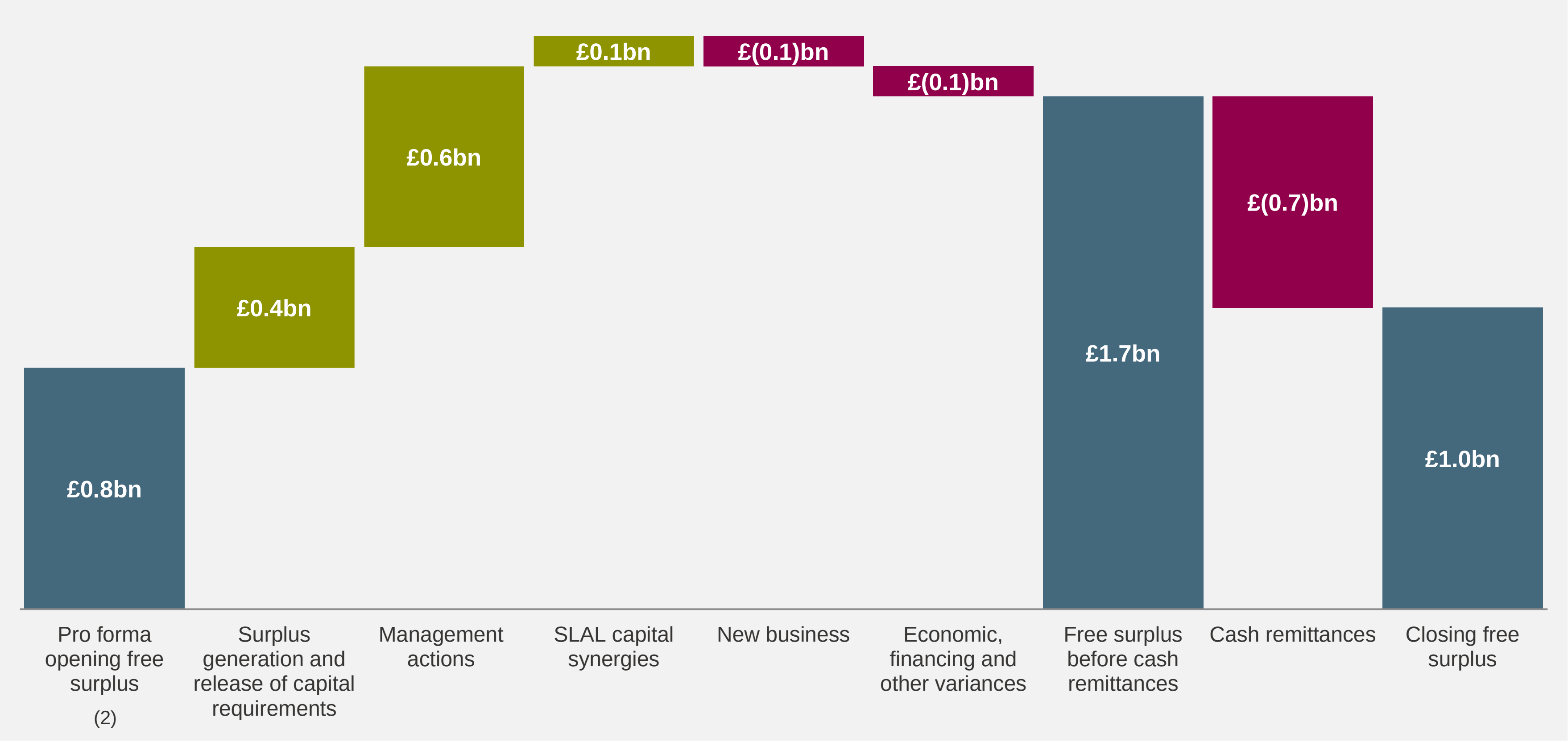
# Appendix III:
# Movements in holding company cash and cash equivalents

| £m | FY18 | FY17 |
|---|---|---|
| **Opening cash and cash equivalents** | **535** | **570** |
| | | |
| **Total cash receipts** | **664** | **653** |
| | | |
| **Uses of cash** | | |
| Operating expenses | (32) | (36) |
| Pension scheme contributions | (49) | (92) |
| Non-recurring cash outflows | (216) | (84) |
| Debt interest | (88) | (60) |
| Debt repayments | - | (1,053) |
| Shareholder dividend | (262) | (193) |
| **Total cash outflows** | **(647)** | **(1,518)** |
| Equity and debt raisings (net of fees) | 1,866 | 830 |
| Cost of acquisitions | (1,971) | - |
| Support BPA activity | (101) | - |
| **Closing cash and cash equivalents** | **346** | **535** |

- 2018 cash receipts include £450 million from Abbey Life
- Non-recurring cash outflows include project and acquisition integration expenses, together with costs of hedging instruments
- Equity and debt raise includes net proceeds of equity rights issue and the Tier 1 notes and Tier 2 bond issues used to finance the acquisition of the Standard Life Assurance businesses

# Appendix IV:
# Change in Life Company Free Surplus

## Change in Life Company Free Surplus in 2018(1)

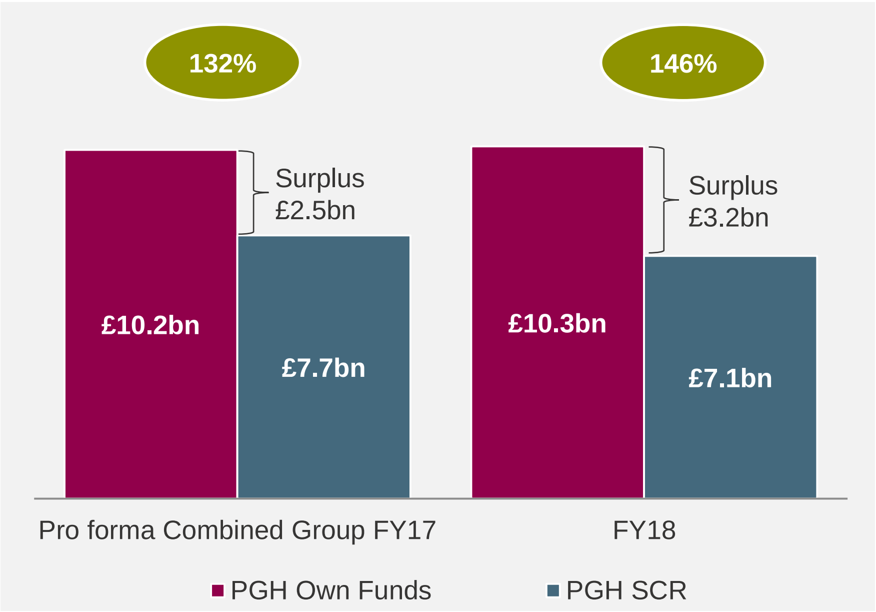



(1) The Life Company Free Surplus is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Life Company Free Surplus would increase by £0.1 billion.

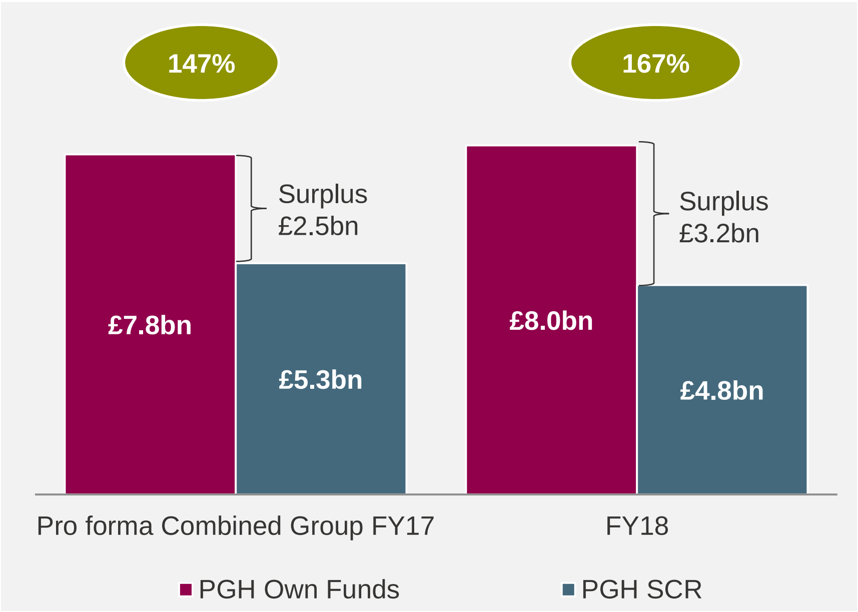
(2) Pro forma basis assumes that the acquisition of the Standard Life Assurance businesses and the implementation of the Group's equity and currency hedging strategy to those businesses took place on 31 December 2017

# Appendix V:
# Estimated Solvency II surplus and SCR coverage ratio

**Solvency II coverage ratio[1]**




**Shareholder capital coverage ratio[1]**




| £(bn) | FY17 pro forma | FY18 |
|---|---|---|
| PGH Solvency II own funds | 10.2 | 10.3 |
| Less: Unsupported with-profit funds | (2.0) | (1.9) |
| Less: PGL pension scheme | (0.4) | (0.4) |
| PGH Shareholder own funds | 7.8 | 8.0 |

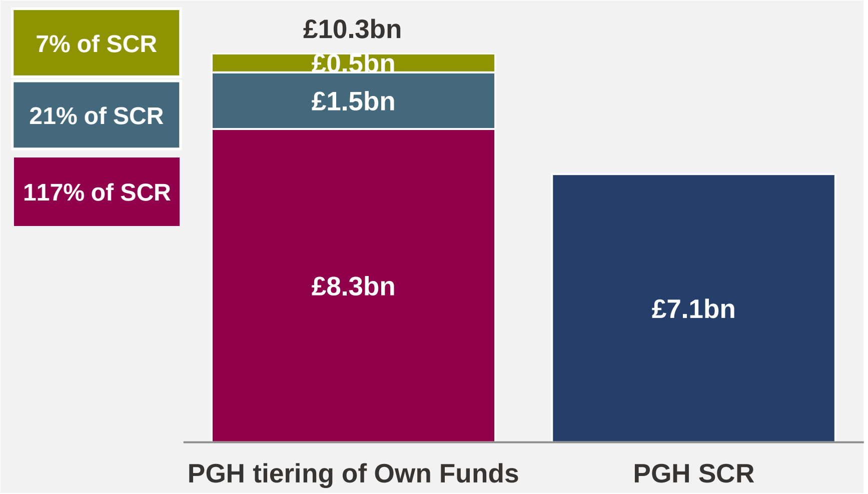
(1) The Solvency II capital position is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II Surplus and the Shareholder Capital Coverage ratio would increase by £0.1 billion and 3% respectively

# Appendix VI:
# SCR by risk type and Own Funds Tiering

## SCR by risk type(1)

| Risk type | Phoenix Internal Model | SLAL Internal Model |
|---|---|---|
| Longevity | 26% | 15% |
| Credit | 18% | 13% |
| Persistency | 10% | 26% |
| Interest rates | 11% | 10% |
| Operational | 7% | 8% |
| Swap spreads | 2% | 1% |
| Other market risks | 16% | 16% |
| Other non-market risks | 10% | 11% |
| Total pre-diversified SCR | 100% | 100% |

## Own Funds by Capital Tier(2)




## Share of SII Own Funds by capital tier

| Own Funds | £bn | Own Funds % |
|---|---|---|
| Tier 1 | 8.3 | 81 |
| Tier 2 | 1.5 | 15 |
| Tier 3 | 0.5 | 4 |
| Total | 10.3 | 100 |

(1) Split of SCR pre diversification benefits and on Shareholder Capital basis

(2) The Solvency II capital position is an estimated position and includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II Surplus would increase by £0.1 billion.

# Appendix VII:
# Regulatory Coverage Ratio sensitivities

## PGH Solvency II Regulatory Coverage Ratio (RCR) sensitivities[1]

| | PGH SII surplus | RCR | Impact on Solvency II RCR |
|---|---|---|---|
| **FY18 Solvency II** | **£3.2bn** | **146%** | |
| 20% fall in equity markets | £3.2bn | 147% | 1% |
| 15% fall in property values | £3.1bn | 144% | (2)% |
| 60bps rise in interest rates[2] | £3.2bn | 149% | 3% |
| 80bps fall in interest rates[2] | £3.2bn | 142% | (4)% |
| 120 bps credit spread widening[3] | £3.0bn | 145% | (1)% |
| 10% increase/decrease lapse rates[4] | £2.8bn | 142% | (4)% |
| 6 months increase in longevity[5] | £2.7bn | 140% | (6)% |

(1) Scenario assumes stress occurs on 1 January 2019
(2) Assumes recalculation of transitionals (subject to PRA approval)
(3) Credit stress equivalent to an average 120bps spread widening across ratings and includes allowance for defaults/downgrades
(4) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups
(5) Applied to the annuity portfolio

# Appendix VIII:
# UK Heritage Business operating profit drivers

| | | FY18 | | | FY17 | | |
|---|---|---|---|---|---|---|---|
| | | Reported Operating Profit[1] | Closing liability/ equity[3] | Expected return margin[1][2] | Reported Operating Profit | Closing liability/ equity[3] | Expected return margin[1][2] |
| **Fund type** | **How profits are generated** | **£m** | **£bn** | **bps** | **£m** | **£bn** | **bps** |
| With-profit | Our share of bonuses paid to policyholders of with-profit business | 104 | 37.2 | 36 | 84 | 23.4 | 35 |
| With-profit (internal capital support) | Return on with-profit funds which are supported with capital from shareholder funds | 20 | 4.3 | nm | (108) | 4.6 | nm |
| Unit linked | Margin earned on unit linked business | 168 | 41.8 | 37 | 90 | 24.2 | 38 |
| Annuities | Spread earned on annuities | 317 | 15.9[4] | 43 | 227 | 10.2[4] | 53 |
| Protection and other non-profit | Investment return and release of margins | 16 | 0.5 | nm[5] | 61 | 0.4 | nm[5] |
| Shareholder funds | Return earned on shareholder fund assets | 15 | 2.4 | 118 | 18 | 2.2 | 79 |
| **Total** | | **640** | **102.1** | **38** | **372** | **65** | **44** |

(1) Reported operating profits shown in the table reflect a four month contribution of the acquired Standard Life Assurance businesses. The expected return margins have been annualised for the contribution of the Standard Life Assurance businesses.

(2) Expected return margin represents the underlying recurring operating profit earned in the period as a proportion of the opening relevant class of policyholder liabilities and shareholder equity. Non-economic variances and assumption changes which are included within reported IFRS operating profit are not included within the expected return margin calculation as they are non-recurring.

(3) Net of reinsurance

(4) Includes insurance liabilities subject to longevity swap arrangements

(5) Not meaningful due to the recognition of negative reserves within insurance liabilities for protection business.

# Appendix IX: UK Open and Europe Businesses operating profit drivers

| | | FY18 | | | FY17 | | |
|---|---|---|---|---|---|---|---|
| | | Reported Operating Profit[1] | AUA | Expected return margin[1][2] | Reported Operating Profit | AUA | Expected return margin |
| **Fund type** | **How profits are generated** | **£m** | **£bn** | **bps** | **£m** | **£bn** | **bps** |
| UK Open | Margin earned on unit linked business | 41 | 84.6 | 23 | (5) | - | nm[3] |
| Europe | Margin earned on unit linked business and shareholder share of with-profit bonuses | 22 | 22.9 | 34 | - | - | - |
| **Total** | | **63** | **107.5** | | **(5)** | **-** | |

(1) Reported operating profits shown in the table reflect a four month contribution of the acquired Standard Life Assurance business. The expected return margins have been annualised for the contribution of Standard Life Assurance.

(2) Expected return margin represents the underlying recurring operating profit earned in the period as a proportion of the opening relevant class of Assets under Administration ('AUA'). Non-economic variances and assumption changes which are included within reported IFRS operating profit are not included within the expected return margin calculation as they are not considered to form part of the recurring margin for this business. In addition, the expected return margins exclude acquisition and new business proposition expenses of £40 million for UK Open and £17 million for Europe that relate to the acquired Standard Life Assurance businesses and were incurred in the 4 month period post completion of the acquisition. Whilst such amounts are recognised in the reported operating profit, such costs will not form part of the recurring margin for the in-force business as at 31 December 2018.

(3) Not meaningful due to the recognition of negative reserves within insurance liabilities for protection business

# Appendix X:
# Asset mix of life companies

| **At 31 December 2018**<br>**£m** (unless otherwise stated) | **Total shareholder, non-profit and supported with-profits[2]** | **%** | **Policyholder funds[3]** | | | **Total assets[1]** |
|---|---|---|---|---|---|---|
| | | | **Non-supported with-profits funds** | **Unit-linked** | **Total policyholder** | |
| Cash deposits | 4,826 | 18 | 5,046 | 7,026 | 12,072 | 16,898 |
| Debt securities | | | | | | |
| Debt securities – gilts | 3,421 | 13 | 15,813 | 5,887 | 21,700 | 25,121 |
| Debt securities – bonds | 14,433 | 55 | 22,384 | 30,410 | 52,794 | 67,227 |
| **Total debt securities** | **17,854** | **68** | **38,197** | **36,297** | **74,494** | **92,348** |
| Equity securities | 174 | 1 | 13,910 | 67,154 | 81,064 | 81,238 |
| Property investments | 145 | 1 | 2,046 | 6,074 | 8,120 | 8,265 |
| Other investments[4] | 3,140 | 12 | 2,844 | 6,279 | 9,123 | 12,263 |
| **Total** | **26,139** | **100** | **62,043** | **122,830** | **184,873** | **211,012** |

(1) The analysis of the asset portfolio comprises assets held by the Group's life companies. It excludes other Group assets such as cash held in holding companies and service companies, and is net of derivative liabilities. This information is presented on a look through basis to underlying holdings where available
(2) Includes assets where shareholders of the life companies bear the investment risk
(3) Includes assets where policyholders bear most of the investment risk
(4) Includes equity release mortgages of £2,020m, commercial real estate loans of £449m, income strips of £654m, policy loans of £9m, other loans of £170m, net derivative assets of £2,832m, reinsurers' share of investment contracts of £5,417m and other investments of £712m.

# Appendix XI:
# Total debt exposure by country

| At 31 December 2018 £m | Sovereign and Supranational | | Corporate: Financial Institutions | | Corporate: Other | | Asset Backed Securities | | Total debt securities | | Total debt |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | |
| UK | 3,843 | 21,948 | 2,832 | 4,981 | 2,539 | 4,759 | 824 | 548 | 10,038 | 32,236 | 42,274 |
| Supranationals | 657 | 387 | - | - | - | - | - | - | 657 | 387 | 1,044 |
| USA | 9 | 3,676 | 796 | 2,122 | 904 | 2,851 | - | 3 | 1,709 | 8,652 | 10,361 |
| Germany | 131 | 3,825 | 138 | 1,001 | 570 | 1,166 | 29 | - | 868 | 5,992 | 6,860 |
| France | 110 | 2,798 | 224 | 2,202 | 549 | 962 | 33 | 9 | 916 | 5,971 | 6,887 |
| Netherlands | 47 | 451 | 451 | 1,157 | 112 | 208 | 72 | 47 | 682 | 1,863 | 2,545 |
| Italy | 45 | 342 | 29 | 89 | 120 | 187 | - | 5 | 194 | 623 | 817 |
| Ireland | - | - | - | 74 | 11 | 70 | 28 | 34 | 39 | 178 | 217 |
| Luxembourg | - | - | 1 | 30 | - | 57 | 34 | 22 | 35 | 109 | 144 |
| Belgium | 6 | 746 | 26 | 169 | 123 | 217 | - | - | 155 | 1,132 | 1,287 |
| Spain | - | 145 | 58 | 309 | 95 | 160 | 17 | - | 170 | 614 | 784 |
| Greece | - | 61 | - | - | - | 0 | - | - | - | 61 | 61 |
| Other - non Eurozone(2) | 296 | 5,814 | 1,177 | 6,010 | 760 | 1,922 | 34 | 71 | 2,267 | 13,817 | 16,084 |
| Other - Eurozone | 46 | 738 | 68 | 293 | 10 | 70 | - | - | 124 | 1,101 | 1,225 |
| Indirectly held debt securities(3) | - | 108 | - | - | - | 1,644 | - | 6 | - | 1,758 | 1,758 |
| **Total debt exposure** | **5,190** | **41,039** | **5,800** | **18,437** | **5,793** | **14,273** | **1,071** | **745** | **17,854** | **74,494** | **92,348** |
| **of which Peripheral Eurozone** | **45** | **548** | **87** | **472** | **226** | **417** | **45** | **39** | **403** | **1,476** | **1,879** |
| **At 31 December 2017 (£m)** | | | | | | | | | | | |
| **Total debt exposure** | **5,025** | **10,404** | **3,255** | **2,089** | **2,971** | **3,512** | **1,267** | **634** | **12,518** | **16,639** | **29,157** |
| **of which Peripheral Eurozone** | **55** | **71** | **10** | **23** | **100** | **67** | **36** | **26** | **201** | **187** | **388** |

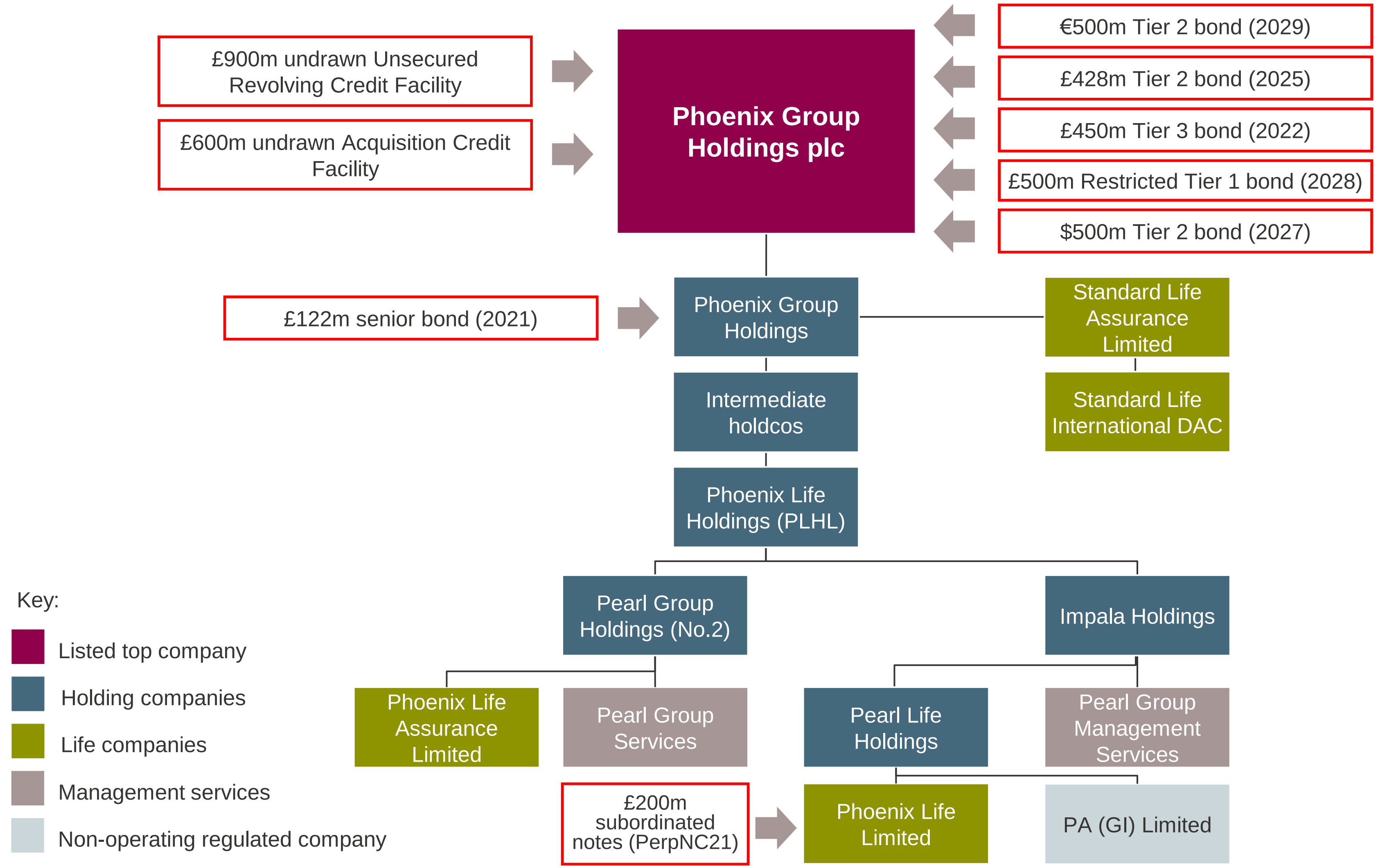
(1) Shareholder includes non-profit and supported with-profits. Policyholder includes non-supported with-profits and unit linked
(2) Shareholder exposures within 'Other - non Eurozone' primarily consist of Australia, Switzerland and Japan
(3) Comprises debt securities held in collective investment schemes, for which look-through information is not available

# Appendix XII:
# Credit rating analysis of debt portfolio

| At 31 December 2018 £m | Total shareholder, non-profit and supported with-profits | Policyholder funds | | Total policyholder | Total assets |
|---|---|---|---|---|---|
| | | Non-supported with-profits funds | Unit-linked | | |
| AAA | 2,260 | 5,576 | 4,855 | 10,431 | 12,691 |
| AA | 6,021 | 21,929 | 8,611 | 30,540 | 36,561 |
| A | 6,229 | 5,446 | 7,347 | 12,793 | 19,022 |
| BBB | 2,906 | 3,998 | 4,932 | 8,930 | 11,836 |
| BB | 13 | 180 | 58 | 238 | 251 |
| B and below | 71 | 387 | 3,959 | 4,346 | 4,417 |
| Non-rated | 354 | 597 | 1,410 | 2,007 | 2,361 |
| Indirectly held debt securities(1) | - | 84 | 5,125 | 5,209 | 5,209 |
| **Total** | **17,854** | **38,197** | **36,297** | **74,494** | **92,348** |

(1) Comprises debt securities held in collective investment schemes, for which look-through information on credit ratings is not available

# Appendix XIII: Corporate structure as at 31 December 2018



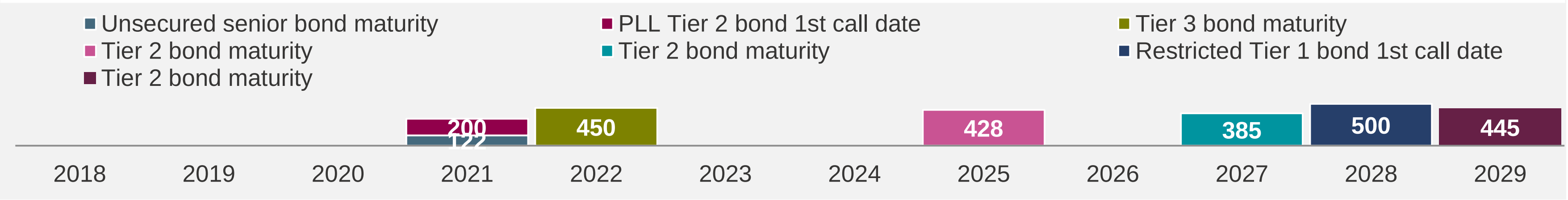

Note: All shareholdings are 100%; All debt figures as at 31 December 2018

# Appendix XIV:
# Outline of current debt structure

## Structure of £2,530 million of outstanding debt as at 31 December 2018

| | Instrument | Issuer/borrower | Maturity | Drawn amount /Face value |
|---|---|---|---|---|
| Bank Debt | £900m unsecured Revolving Credit Facility ("RCF") (L+110bps) | Phoenix Group Holdings plc | June 2021 | - |
| | £600m acquisition credit facility (L+50bps) | Phoenix Group Holdings plc | 12 months after completion | - |
| Bonds | Unsecured Senior bond (5.750% due Jul-2021, XS1081768738) | Phoenix Group Holdings | July 2021 | £122m |
| | Subordinated Tier 3 bond (4.125% due Jul-2022, XS1551285007) | Phoenix Group Holdings plc | July 2022 | £450m |
| | Subordinated Tier 2 bond (6.625% due Dec-2025, XS1171593293) | Phoenix Group Holdings plc | December 2025 | £428m |
| | Subordinated Tier 2 bond(1) (5.375% due Jul-2027, XS1639849204) | Phoenix Group Holdings plc | July 2027 | $500m(1) |
| | Subordinated Tier 2 bond (7.250% Perpetual NC2021, XS0133173137) | Phoenix Life Limited | March 2021 (first call date) | £200m |
| | Subordinated Tier 2 bond(2) (4.375% due Jan-2029, XS1881005117) | Phoenix Group Holdings plc | January 2029 | €500m(2) |
| | Restricted Tier 1 bond (5.750% Perpetual NC2028, XS1802140894) | Phoenix Group Holdings plc | April 2028 (first call date) | £500m |

## Debt maturity profile as at 31 December 2018 (£m)




(1) Swapped into £385m at a semi-annual rate of 4.2% per annum (excluding costs and fees)
(2) Swapped into £445m at a annual rate of 5.74% per annum (excluding costs and fees)

# Appendix XV:
# Client Service and Proposition Agreement

PHOENIX GROUP

Standard Life Aberdeen

**Responsibility**

- Underwriting
- Administration
- Product provision

**Risks**

- Conduct
- Persistency

**Standard Life**

**CUSTOMERS**

**Responsibility**

- Distribution[1]
- Marketing
- Platform
- Advice

**Risks**

- Mis-selling
- Cost of distribution

**Joint Operating Forum** provides oversight of each component

(1) Workplace distribution is now being performed by Phoenix Group. All other products continue to be distributed by Standard Life Aberdeen

# Disclaimer and other information

- This presentation in relation to Phoenix Group Holdings plc and its subsidiaries (the ‘Group’) contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group’s current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives
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- As a result, the Group’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within this presentation. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this presentation or any other forward-looking statements or data it may make or publish
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- References to Solvency II relate to the relevant calculation for Phoenix Group Holdings plc