Phoenix Group Full Year 2020 Results transcript

Andy Briggs, Group Chief Executive Officer

Hello everybody and welcome to Phoenix Group's full year results presentation.

I hope you're all keeping well during these challenging times.

In line with the current Government guidance, we've opted for Rakesh and I both to present from home.

I will start the presentation with a look back at 2020, Rakesh will walk through the financials in detail and I will return to discuss the outlook going forward.

The presentation will last approximately 45 minutes and will be followed by a live Q&A session with Andy Moss, Andy Curran and Mike Eakins joining us.

So, turning to the opening slide. 2020 was a landmark year for Phoenix with a significant number of achievements delivered in a uniquely challenging environment.

We completed the acquisition of ReAssure to establish Phoenix as the UK's largest long-term savings and retirement business.

We delivered record cash generation and record new business long term cash and our financial strength allowed us to pay our planned dividends and enabled the Board to recommend an increased final dividend for 2020.

We have a clear purpose, 'Helping people secure a life of possibilities', with a pivotal role to play in society, and we are focused on delivering better outcomes for all of our stakeholders, with key achievements this year including the announcement of our net-zero carbon commitment.

And the actions we have taken to increase colleague engagement.

As you would expect from Phoenix, we have once again, delivered on our key attributes of cash, resilience and growth, during 2020.

Rakesh will cover these in more detail shortly, but in terms of the headlines.

We delivered cash generation of £1.7 billion for the year, exceeding the upper end of our £1.5-£1.6 billion target. With a £5.3 billion Solvency II surplus and a shareholder capital coverage ratio of 164%, our financial position is strong.

And our resilience has been evidenced through a small economic variance despite the market volatility. This year's strong financial performance has been supported by the significant progress we've made on delivering the ReAssure synergies with nearly £700 million delivered to date, which has enabled us to increase our synergy target by over 30% to more than £1 billion.

Finally, we've delivered £766 million of incremental long-term cash from new business in our Open division, a 59% increase year on year and significant progress towards proving the wedge.

Dependable cash generation and a resilient capital position are the key to our rock-solid dividend which we have the resources to fund for over 20 years. We operate a stable and sustainable dividend policy and historically M&A has been the trigger for increases, as evidenced by the 50% increase in our dividend over the past 10 years.

2020 was no exception with the Board recommending a 3% increase in the final dividend to 24.1p per share as planned owing to the significant value generated through the ReAssure transaction.

Obviously, going forward, both M&A and organic growth by proving the wedge can lead to future dividend increases. As the graph on the right shows, we've significantly outperformed the FTSE100 in terms of dividend growth through 2020.

And we expect to be the 27th largest dividend payer in absolute quantum in the FTSE 100.

As a purpose led organisation, we believe we have a pivotal role to play in society as the UK navigates the shifting pension's landscape. That's why our purpose is 'Helping people secure a life of possibilities.'

This means providing the right guidance and products, at the right time, to support the right choices.

I passionately believe that businesses with the best people, focused on their purpose and their role in society, deliver better customer outcomes and in turn, stronger returns for shareholders.

The virtuous circle you see on this slide. Rakesh will talk through the detail of the financial performance shortly, so I want to spend the rest of my opening slides focused on how we've been delivering better outcomes for our customers, colleagues, communities and wider society, which will in turn drive longer term shareholder value.

Our key priorities throughout the pandemic have been to protect our customers and colleagues and to support the communities in which we operate.

And what we've learnt during this time, will drive a lasting change in our business.

For our customers, the uptake of digital has been accelerated by necessity and this will endure, so we need to accelerate our digitisation strategy to support this growing demand.

The pandemic has also widened social inequalities, and so we're increasing our focus on financial education and inclusion and enhancing our support for vulnerable customers.

Our colleagues are telling us they want a more flexible working model, and so we have a Group wide, Future Ways of Working project. Here, our colleagues are helping us to develop a model that best supports their needs and wellbeing.

But with more flexible working comes the opportunity to reduce our intra-office travel across the UK and so we're establishing a green travel policy that supports our net zero carbon commitment.

And, we will provide tailored community investment driven by the key challenges in their location, rather than applying a one size fits all approach.

Critical to our success, is our focus on our customers. That is why I am delighted that despite the significant challenges posed by the pandemic, we have continued to meet or exceed all of our customer satisfaction targets during 2020.

Key to this, was our decision to keep our call centres open, while others closed theirs, coupled with the immense dedication of our customer support teams. I often see commentary which suggests heritage providers are the worst customer service but that is definitely not the case at Phoenix, with all our key customer satisfaction KPI's 90% or greater.

And, as you can see, we've also continued to invest in our customer proposition with some significant initiatives delivered last year which will support our future growth.

These include the launch of an ESG default fund for Workplace clients and an enhanced client analytics tool that will enable us to better personalise the customer experience.

The launch of our in scheme drawdown for Master Trust was another key proposition development as it has filled a clear gap in our product offering and now better enables us to retain customers.

Finally, the expansion of our digital functionality has supported a strong increase in digital engagement by our customers. We now have over 50% of log ins made via our enhanced mobile app, and online secure messaging volumes have more than doubled in 2020.

A key part of our customer proposition is our Standard Life branded Workplace and Customer Savings and Investment offerings.

These were previously operated through a fairly complex set of agreements with Standard Life Aberdeen as you can see on the left of this diagram.

As many of you will know, we recently announced that we've entered into a new agreement to significantly simplify the arrangements of our Strategic Partnership.

The original transaction back in 2018 saw us acquire the products and economics of the life and pensions business.

However, if we wanted to make a proposition, marketing or distribution change, then we had first to engage and agree this with SLA who would in turn, implement them on our behalf. This meant we were slower to respond to the market than we would have liked.

We now own all of the Life and Pensions business of Standard Life including the brand, marketing and distribution, meaning we are now in control of our own destiny.

This will enable us to provide a more streamlined, multichannel customer experience and will allow us to accelerate the delivery of a broader set of propositions for customers.

We therefore see this as a key enabler for accelerating our Open business growth strategy and delivering incremental new business long term cash generation over time.

Both the Transitional Services Agreement and Client Service and Proposition Agreement will also be dissolved and we've extended our Strategic Asset Management Partnership with SLA until 2031.

It was also pleasing to see Standard Life Aberdeen reaffirm their commitment to their 14% strategic shareholding in Phoenix.

I also know that the arrangements previously in place have been operationally complex for many of our colleague's day to day so I'm pleased this new agreement simplifies things for them as well.

I now want to talk a bit more about how we're investing in our people and culture more broadly.

We want to make Phoenix the best place that our colleagues have ever worked and so we're investing in our people proposition. I was delighted that despite what is clearly a challenging year for our colleagues, our recent annual engagement survey reported an increase of 10 percentage points in overall engagement to 75%.

We have embedded a comprehensive diversity and inclusion strategy into our organisation and are seeing this focus come through in the more balanced profile in our recruitment and promotions.

We've also launched our 'Who we Are' app which is designed to enhance our diversity data and enable us to better track and inform our progress.

We have also been proactive with the wellbeing and mental health support we have provided to our colleagues. This has included financial support for home schooling equipment, additional emergency leave for parents and carers, and the increased promotion of our employee mental health network 'Mind Matters'.

Finally, we continue to develop excellent talent in the business and augmenting this with high calibre new appointments as you will have seen from some of our recent press releases.

We're building a team of the very best talent in the market. We see sustainability as being at the core of our purpose of 'Helping people secure a life of possibilities and a key enabler of our strategy.

We outlined our comprehensive new sustainability strategy at our Capital Markets Day in December which focuses on delivering for our 14 million customers, and investing our £338 billion of assets under administration in a sustainable manner.

As we all know, the impact of climate change is one of the biggest global issues we face and Phoenix is committed to supporting the goals of the Paris agreement.

That is why we've made a commitment to becoming net-zero carbon with an ambitious target of 2025 for our operations and 2050 for our investment portfolio.

We have already signed up to a commitment to setting science-based targets. We're on track to have 100% renewable energy contracts across all of our offices by the end of 2021.

And we have set ourselves the target of reducing our greenhouse gas emissions from operations by 20% this year.

And, for our equity and liquid credit assets, where we exercise control and influence, we will also be base lining and setting reduction plans.

You can find out more about the actions we're taking to be a sustainable business in our comprehensive 2020 Sustainability Report.

And with that I'll hand you over to Rakesh.

Rakesh Thakrar, Group Chief Financial Officer

Thank you Andy, and good morning. As Andy said, Phoenix delivered a strong financial performance in 2020 with record cash generation of £1.7 billion and new business of £766 million, up 59% year on year as we executed on our strategy of managing our in force business for cash and resilience and delivered growth.

Operating profit of £1.2 billion reflects the inclusion of ReAssure and the acquisition also allowed us to increase the final dividend by 3% to deliver a total 2020 dividend of 47.5pence per share, a 6.5% yield on the current share price.

This financial performance was delivered despite the volatility driven by the pandemic.

Our solvency position has strengthened during the year, to £5.3 billion and continues to be resilient with a solvency ratio of 164% that remain comfortably within our target range throughout the year.

Our leverage ratio of 28% also remains within our target range and has reduced since the ReAssure transaction as we make good progress in delivering synergies.

Turning first to cash. At our Capital Markets Day in December, we announced that we had exceeded the upper end of our 2020 target range with £1.7 billion of cash generation in the year. This included £0.8 billion of organic cash generation as surplus immerged from our in force business and £0.9 billion of management actions that had been remitted to Group as cash during the year.

And while 2020 had a slightly unusual intra-year phasing, going forward we do expect to see group cash releases happen twice a year, in line with our normal practice.

Today, we have set a new one-year cash generation target range of £1.5-1.6 billion for 2021 and we remain on track to deliver our 5-year target from 2019 to 2023, which has been upgraded today to £6.8 billion to reflect the ReAssure acquisition, together with new business and over delivery of management actions during 2020.

Having delivered a total of £2.4 billion of cash generation over 2019 and 2020 we therefore expect to deliver a further £4.4 billion over the next 3 years.

Phoenix's cash generation guidance is based on in force business only and excludes the impact of any new business to be written in the future. At the end of each year, we will therefore have to roll forward our cash generation guidance to take account of new business written in the year and other known differences.

We estimate that the business in force as at 31st December 2020 will generate £17.7 billion of cash over it's lifetime. This excludes the Wrap SIPP, Onshore Bond and TIP businesses which have been sold back to Standard Life Aberdeen.

And it has also been adjusted to reflect a prudent estimate of the impact of the changes to corporation tax from April 2023 that were announced last week but which do not impact our short-term targets given the enactment date.

This estimate of future cash generation excludes the benefit of management actions from 2024 onwards.

Focusing first on the next 3 years, this slide sets out the HoldCo uses of cash generation and illustrates how secure our current dividend is over that period. It also highlights the significant amount of surplus cash that will be generated over this period, which will be available for growth, subject to operating within our Fitch leverage target range of 25-30%.

To improve the clarity of our reporting, we introduced a new metric called Group, long term free cash at our Capital Markets Day in December. The starting point is our £17.7 billion of long-term cash generation which includes 10 years of capitalised future acquisition costs.

As a Group wide metric, it has the advantage of then netting out the impact of moving cash from the operating company to the holding company which you can see has occurred during 2020.

It also adjusts for shareholder debt and therefore provides a quantification of the total cash available to meet group costs, growth, and shareholder returns. So, let me talk in detail on the next slide about how Group long term free cash has moved during the year.

As a Group, we generate additional long-term cash by writing new business and through the over delivery of value accretive management actions.

In 2020 we delivered £766 million of new business long term cash generation and are optimistic about growing this amount next year.

We have also over delivered on our management actions during the year by around £300 million but have chosen to reinvest around £200 million back into our Open business growth strategy. We have made a one-off allowance of around £20 million of costs per annum that has been capitalised for the next 10 years, which is a modest investment relative to the growth in the open business long term cash generation we expect to deliver over time.

This primarily reflects the necessary investment in people, propositions and capabilities in our Open business, Asset Management business, as well as Brand and Sustainability, in order to deliver the growth ambitions, we outlined at our Capital Markets Day.

The Groups recurring uses of cash include operating costs, interest and dividend, plus the funding of new BPA business. As you can see, incremental cash from new business fully funded our operating costs, interest and dividend and by improving the capital efficiency of our BPA business and continuing to over deliver on management actions in the future, we will increase the net long term free cash contribution over time.

In 2020, our recurring sources of cash have therefore largely funded recurring group uses of cash.

However, we have also adjusted the 2020 Group long term free cash to pro forma for two non-recurring items, we have recognised the £0.2 billion impact from the disposal of the Wrap SIPP, Onshore Bond and TIP business to SLA as well as a prudent £0.3 billion estimated impact from the future changes to corporation tax announced last week.

Group long-term free cash, is £13.4 billion. After the servicing of debt until maturity this leaves £11.8 billion of cash available to shareholders.

This level of Group cash supports our stable and sustainable dividend for over 20 years and whilst historically the trigger for uplifts has been M&A, the board now has a clear framework for considering whether organic growth has the potential to support dividend growth.

The framework has two conditions, both of which must be met. Firstly, we must prove the wedge and see the cash generated from new business more than offsets the run off of our in force business.

This will be the case when incremental cash generation from new business exceeds £800Mn per annum.

The second is that our recurring sources of cash must exceed our recurring uses to deliver sustainable growth in our group long term free cash.

Before we move on to talk about resilience, I will walk you through our IFRS results.

We delivered operating profit of £1.2 billion in 2020, 48% higher than the prior year. This increase is driven by the inclusion of the post-acquisition results of ReAssure and the benefit of new business. Our heritage business operating profit is down year on year, as 2019 experienced one off benefits from modelling improvements, while ReAssure which still includes the annuity portfolio, contains a circa £190Mn gain from updated longevity assumptions in 2020.

Open business operating profit has increased 10% year on year due to new business profits on BPA transactions and positive longevity assumption changes.

We have updated our Group assumptions to reflect the move to CMI19 tables and we have made no allowance for the pandemic on our future assumptions.

Finally, just to note that non-operating items included £372 million accounting gain on the ReAssure acquisition.

Maintaining Phoenix's capital resilience has been my key priority during the economic turbulence of the year. As at 31st December 2020 the Group had an estimated Solvency II surplus of £5.3 billion and a shareholder capital coverage ratio of 164%. This ratio is comfortably in the middle of our target range of 140-180% and is significantly higher than the 31st December 2019 proforma ratio of 152%, reflecting strong delivery of management actions and synergies during the year.

The yearend position is also stated after recognition of the 2020 final dividend of £241 million. Shareholder Own Funds less debt continues to be a good starting point for determining shareholder value but does not include a number of areas where value exists.

These include, contract boundaries where the value of in force on unit linked business is restricted under Solvency II and the shareholder share of our with profits estate. Adjusting for these items, provides a proxy for shareholder value at 31st December 2020 of £9.2 billion which equates to £9.21 per ordinary share.

This value proxy is effectively ex-dividend, it also places no value on future new business from investing annuities, BPA and open channels or management actions, and I would note that this is significantly above our current share price of just over £7.30 per share.

Phoenix has a unique approach to managing risk. We have a particularly low appetite to equity, currency and interest rate risks, which we see as unrewarded.

We therefore have a comprehensive and dynamic hedging programme in place, which hedges 80-90% of shareholders exposure to equity risk and uses swaps and swaptions to protect the Group's Solvency II surplus to changes in interest rates. This translates into low sensitivities as presented here.

We see credit risk as rewarded and actively manage our portfolio to ensure that it remains high quality and diversified and operates within our risk appetite.

It is worth noting that the credit sensitivities we disclosed are very prudent as they assume no management actions are taken to re-balance our portfolio.

Finally, we manage our longevity risk through reinsurance.

Our focus on risk management and delivery of management actions has driven the significant increase in our capital surplus and solvency ratio during the year. Despite the market volatility experienced in the year, we have seen only a £0.2 billion strain from economics.

This evidences both our hedging program and active credit portfolio management in action.

We have also completed the annual review of longevity assumptions. As mentioned earlier, we have updated our assumptions to the CMI 2019 longevity tables but we have made no allowance to changes in assumptions from the pandemic.

As a result, we have seen a £0.2 billion release of longevity reserves.

Phoenix has a diversified high credit quality shareholder debt portfolio.

Our £35 billion portfolio is proactively managed on a daily basis to respond to the changing macro-economic environment by a dedicated in-house team of market leading credit experts.

The portfolio is defensively positioned with limited exposure to companies most impacted by COVID-19 in sectors such as airlines, hotels, leisure and traditional retail.

98% of our portfolio is investment grade with only 2% of the portfolio sitting at BBB-. The quality of our portfolio is demonstrated by a cash flow payment experience with greater than 99% of cash flows paid on illiquid bonds and 100% paid on liquid bonds. Our active management approach has also enabled us to minimise our downgrade experience during the year with only 0.8% of bonds experiencing a downgrade to sub investment grade.

Long dated or illiquid assets provide excellent cash flow matching for our £41 billion annuity book and illiquid asset origination is a key management action. Our £10 billion illiquid asset portfolio comprises 25% of annuity backing assets and is high quality and well diversified. It includes equity release mortgages, private placements and infrastructure with smaller holdings of commercial real estate and local authority loans.

We continue to target increasing our allocation of illiquids to 40% and intend to originate circa £3 billion of illiquid assets in 2021. We are investing in our origination capabilities and are continuing to increase our focus on sourcing ESG assets and supporting the Government in building Britain Back Better with plans to invest £20 billion over the next 5 years. We recognise that sourcing the right illiquid assets is a key enabler of reducing the capital strain on our BPA business and we will continue to focus on value over volume in our origination.

Management actions drive value and are a key strength of our business. During the year, delivery of management actions contributed £1.3 billion to surplus capital, whilst the delivery of integration synergies from the standard life and ReAssure acquisitions is an important part of this year's actions, more than half of our management actions were delivered from our business-as-usual activities, which highlights the sustainability of our management actions.

As well as the sourcing of illiquid assets, benefits were also delivered through the active management of our credit portfolio and wider balance sheet including operational efficiencies.

Our plan had assumed we would deliver a strong year of management actions in 2020 and the over delivery of value accretive own funds actions translated directly into a £300 milllion increase in our medium-term cash generation target as shown earlier.

We are the market leader in the integration of Heritage business and the acquisition of ReAssure has significantly strengthened our capabilities in this regard. Having completed the ReAssure acquisition in July, we continue to progress with our plans to integrate the business into Phoenix.

The strong progress made to date has enabled us to increase our synergy targets by £250 million for this acquisition, from £800 million to just over £1 billion, an increase of over 30%, this reflects the strong progress we have made on capital synergies, with £479 million already delivered against our original £450 million target as well as the identification of an additional £10 million per annum of after-tax cost synergies which we then capitalise for 10 years.

We have continued to make no estimate of cost savings from moving to a single customer administration and IT platform.

Instead, we see significant benefits from retaining a hybrid model, neutralising both the ReAssure ALPHA and the Diligenta BANCs platforms which will enable us to integrate multiple M&A concurrently.

We continue to make good progress across both integration programs, we have already delivered our capital synergy target for the Standard Life transition programme.

The next key milestone for us will be obtaining regulatory approval for our harmonised internal model.

We expect to submit our application this month and hope to receive approval by the end of Q3 in line with the typical regulatory approval timeline.

Not only will this allow us to proceed with our planned Part VII of the legacy Phoenix Life and Standard Life legal entities, but it will also allow us to proceed with bringing ReAssure into the new internal model.

This Part VII will cover in the region of 10 million policies and be one of the largest ever undertaken in the industry.

We expect this to complete in 2022.

The migration of the Standard Life business onto the Diligenta BANCs platform continues to progress to plan, targeting completion in 2023. This will deliver the remaining cost synergies and incur the majority of excepted transition costs with a significant investment having already been made to deliver these future cost synergies.

As I've already mentioned, we have made strong progress in the first 6 months on the ReAssure transition, which is what has enabled us to upgrade our targets so quickly.

2020 was a record year for new business at Phoenix, delivering £766 million of incremental long term cash generation, a 59% increase year on year. As I mentioned earlier, we expect £800 million of incremental cash generation per annum from the new business will be sufficient to offset the run off of our in force business.

We believe this is achievable should market conditions continue to allow the investment of capital at acceptable risk adjusted returns.

And we therefore expect to prove the wedge in due course.

2020 performance was underpinned by strong delivery in our retirement solutions business unit.

We also saw a resilient performance across the other 4 consumer facing business units within the Open division despite the impact of COVID.

Growth in our Retirement Solutions business is driven by BPA.

In the year, we took an estimated 6% share of the external BPA market delivering £350 million of incremental long term cash generation. We have continued to see improvements in our external deal economics with average payback reducing to 5 years in 2020 and capital strain reducing to 8%. We are investing in our capabilities to ensure we become increasingly competitive in this market and are targeting of capital strain of 5% which we will achieve through the harmonisation of the internal model, illiquid asset origination and improved reinsurance.

This focus on deal economics will ensure we deliver value over volume.

We were also delighted to reach an agreement with the trustees of the Pearl Pension Scheme, which Phoenix is the parent sponsor for a buy in for the full £3 billion of scheme liabilities. We will deliver this through a series of tranches over the next 2-3 years and it therefore provides a significant contribution to incremental new business, long-term cash generation in future years, with £172 million delivered in 2020.

Integral to the agreement was the release of a share charge over Phoenix Life Assurance Limited which will enable the Part VII transfer of this company to take place in 2022 along with the other legacy Standard Life and Phoenix Life entities I mentioned earlier.

We expect the incremental Part VII capital benefit in relation to the full £3 billion buy in to be in excess of £100 million and this will more than compensate for the slightly higher headline capital strain as seen with the first tranch.

To conclude, Phoenix has a clear financial framework which supports its strategy and delivers cash, resilience and growth. 2020 was a record year for Phoenix with £1.7 billion of cash generation and £766 million of incremental long-term cash generation from new business, despite the many challenges of the pandemic, the business was resilient throughout, with both leverage and Solvency managed comfortably within our target ranges, enabling us to pay and increase our dividends as planned.

Moving forward, we have set new 1 year and 3-year cash generation targets and increased the synergy targets associated with the ReAssure acquisition. We will continue our focus on delivering resilience by operating within our target ranges for Solvency and leverage and finally we will proactively seek to deliver on our growth strategy and bring sustainability to Group long-term free cash.

I will now hand you back to Andy.

Andy Briggs, **Group Chief Executive Officer**

Thanks Rakesh. We have a clear strategy that is focused on 3 key priorities and leverages the industry drivers of change.

Our first priority is optimising what we have, our in force business where our risk management framework ensures we improve customer outcomes and deliver resilient cash generation.

Our second priority is deepening customer relationships as a response to the increasing demand from people seeking guidance to consolidate a journey to and through retirement.

We do this by engaging them and offering the right guidance and products, as the right time to support the right choices across the savings life cycle.

And our third priority is customer acquisition. Here, we will leverage both the strong growth in the workplace market and the increasing demand from corporates for BPA transactions to deliver new business, and we will continue to assess Heritage M&A transactions as insurers further consolidate in order to release trapped capital and avoid cost inefficiencies.

The successful execution of this strategy will ensure we deliver against our financial framework of cash, resilience and growth.

Phoenix is the market leader in managing Heritage businesses and our priorities in 2021 are consistent with prior years. First, is ever improving customer outcomes, be that through delivering value for money, tracing and repatriating lost policies or being proactive in preventing pensions fraud.

Second, is continuing to manage our capital position for resilience, through our unique risk management framework which delivered very low economic variances in 2020.

Third, once again delivering value accretive management actions. We have a clear track record of success here, having delivered over £1 billion last year and nearly £3.5 billion of cash generative actions over the past 11 years.

And finally, we will execute on our integration plans to deliver cost and capital synergies. We've got a busy program of integration activity scheduled in 2021 but are confident in our ability to execute.

With our tried and tested three phased sequential approach, meaning we can safely manage multiple integrations at once.

We have built strong growth momentum in our Open business in 2020 and as Rakesh has outlined, we came very close to proving the wedge last year. We are focused on building on this success and driving our growth strategy forward in 2021.

Our established BPA business was a major contributor during 2020 and we intend to continue pushing forward here.

We are building out a market leading team end proposition allocating capital to the business, and making further progress on our path to our reduced capital strain target of 5%.

We also have further tranches of our Pearl Scheme buy ins to deliver and it's good to know that we have already secured this significant boost to new business cash generation over the next few years.

Leveraging the newly acquired Standard Life brand is really exciting for us and I talked earlier about how ownership of the brand and with it, marketing and distribution is a key enabler of our growth strategy for Workplace, Customer Savings and Investments.

We will also be continuing the Investment in our Workplace proposition as we look to build on our Top 3 position. New proposition developments in 2021 include a Workplace ISA, and a further expansion of our BSG offering and an increased focus on digitisation including using data analytics to provide a more personalised customer experience.

In our customer saving and investment business, we will be leveraging the insight that we have garnered from the customer engagement that we undertook in 2020 to development innovative solutions through an agile test and learn approach.

Finally, as part of our commitment to the financial advisor market, we have been working with our partner TCS to develop a new and improved digital portal for the retail advisors in the UK. It will launch later in 2021 and will help advisers work more efficiently and create more opportunities for them with their clients.

We also continue to see M&A as a core driver of our growth.

As we outlined at our Capital Markets Day in December, we have 3 very clear criteria for assessing the acquisitions and we remain disciplined in our approach.

Alongside being a good strategic fit, any deal has to be value accretive, supportive of the dividend and enable us to maintain our investment grade rating.

There remains a huge opportunity for us to explore. The UK heritage market alone is a £440 billion opportunity, while our focus remains on acquiring heritage books, we will also consider buying open books, if they bring complementary capabilities to our strategy and meet our 3 criteria.

And, if the right opportunity comes along, that we undoubtedly do have both the fire power and the capacity to execute.

So, let me conclude with our priorities for 2021 and beyond.

Again, our story is simple. The key outcomes we deliver for our shareholders are cash, resilience and growth.

In 2021 we will deliver those by continuing with a disciplined management of our balance sheet, delivering on our integrations and by accelerating our Open business growth strategy.

And as a purpose led organisation, we will do this through, delivering on our sustainability commitments, and investing to help Britain Build Back Better and Greener.

Ensuring our customers are at the centre of everything we do and by investing in our people and culture and with that we'll move to questions.

Can I please therefore ask the analyst who are currently watching on the webcast to now log into the zoom call with the details that they've been sent by the IR team.

I'm pleased to say that Andy Curran, Andy Moss and Mike Eakins will also be joining Rakesh and I for the Q&A session. In terms of the format for the Sellside Analysts who are joining the Zoom call, please use the raise your hand function and the operator will bring you into our presentation live via video, enabling you to ask your questions directly to the presenters. For anyone watching on the webcast, please use the Q&A facility and we will come to your questions after we've been to those on the Zoom call. Thank you.

Q&A

Andy Briggs, Group Chief Executive Officer

Good morning everyone, great to see you all. So, while we give the analysts a moment or two to dial in to the zoom environment where they're able to ask their questions live, Andrew Downey has both some pre-submitted questions and the questions on the webcast, so to give the analysts a moment, Andrew, can we have our first question please from the pre-submitted or webcast?

Andrew Downey, Head of Investor Relations

Absolutely, so Andy, the first question is how important is your recent acquisition of the Standard Life brands to delivering on your growth aspirations improving the wedge?

Andy Briggs, **Group Chief Executive Officer**

Thanks Andrew. So, look, within our financial framework cash and resilience remain as important to us as ever but growth is also important to us and I was very pleased with the growth performance of the business last year with the long-term new business cash up 59% to £766 million.

I think the Standard Life brand is really important to us because previously, whenever our teams wanted to make any upgrades to any propositions or consider any customer marketing and communication materials, we always used to have to go across to our friends in Standard Life Aberdeen and ask them and they would then do that for us.

So, what this deal has done is moved us on from just buying the products and economics, to owning all of the life and pensions business of Standard Life, including the brand, marketing and distribution and at the same time, the customer service proposition agreement will be dissolved as well or terminated as well, and that will give us much more freedom to develop a broader range of propositions and think about doing more in the retail advisers space for example…

So, I think it makes a big difference to us. I think it's also really pleasing that Standard Life Aberdeen have reaffirmed their commitment to their strategic shareholding, their 14% stake in the Phoenix Group, it's also great that we have got a fantastic opportunity to deepen the strategic asset management partnership we have together and all of this adds to our confidence that we can drive our growth further forward, above the £800 million level required to prove the wedge and obviously that being the key trigger to grow the dividend…

So, it's exciting times ahead for us there. So, hopefully now our analyst friends have had the opportunity to dial into Zoom. If I can just remind you to use the 'Raise Hand' function to ask your question, and Clair can we have the first analyst questions please?

Clair May, Storm Events

Yep, indeed we've got Andy Sinclair. Andy if you'd like to unmute your mic, please go ahead and ask your question thank you.

QUESTION

Andy Sinclair, Bank of America

Thanks, and morning everyone, three from me as usual if that's ok. Firstly, it was just on the Pearl transaction, you flagged some more of those transactions could come, just really wondered what should we think about for strain and the economics of future transactions compared to the first one, just any colour there?

Second, was again on the Standard Life agreement, you brought the brand to Lothian Road, just really wondered if you could tell us what particular products you might be looking to push harder, are there any particular products you weren't able to look at before that you could do now, say in the IFA space, does that interest you or direct, perhaps leveraging a workplace platform or just any thoughts on that?

And thirdly was just really on absorbing the corporation tax change and still being able to increase long term cash guidance, just really wondering if you could give us a bit of colour on what the tax change means and how you're able to offset and mitigate that impact, thanks.

Andy Briggs, **Group Chief Executive Officer**

Thanks Andy and a very, very impressive lockdown beard there. You resemble Jim Hamilton, the former Scotland lock, he's a mate of mine, whose son plays rugby with my son, so you're probably not quite his height, but so I'll get Rakesh to take the first question on the Pearl buy-in and also pick up the question on the corporation tax change, and then we'll go to Andy Curran who can talk a bit about some of our thinking on the Standard Life brand and broader products and propositions. So, Rakesh first…

Rakesh Thakrar, Group Chief Financial Officer

Thanks Andy so let me start with the first question on the Pearl transactions. So, clearly the Pearl transaction was really important for Phoenix in that, you know, not only did we get the first 25% of the £3 billion scheme, we are now signed up to get the remaining 75% over the next 2-3 years, so really good transaction for us. It is effectively a zero-sum gain because it is our own scheme, so if we want to get better terms on that scheme, we effectively have to put money in or get it back anyway, so it is a zero-sum gain, so the fact that we got the full £3 billion is really key…

And more importantly, it actually unlocks the Part 7 transaction of the Phoenix Life Assurance Ltd company which as I said in the presentation, will provide a further £100 million benefit when we do the Part 7 later in 2022.

So, in terms of strain to answer your specific question Andy, it would be broadly similar but consistent with our external BPA transaction that we have announced, we are still trying to target a lower strain and the benefits of the internal model harmonisation, the benefits of allocating illiquid assets to the scheme and also the benefit of longer-term reinsurance, will also help reduce that strain as we expect it to do for external BPAs.

I mean just to give you some context, the current amount allocated in terms of illiquids - so that Pearl transaction was only 20%, and when you compare that to the external BPAs it's quite a bit lower, so we do have some benefit of future management actions of allocating possibly more to that scheme later in the future.

On the third point, on the corporation tax, clearly this was something that came out in the middle of last week and the increase of corporation tax from 19% to 25% and really being starting from 2023 onwards, and if you look at our cash guidance Andy, it is really from the period from 2021 – 2023, the £4.4 billion. So I'm not expecting it to impact it that much in terms of the short-term position, I also have a lot of resilience within the Life companies that you will have seen, so not expecting it to impact in the short term. In the longer term, we've given the guidance that we think that the long-term free cash will be impacted by £0.3 billion. So, thank you Andy, now it's back to you.

To Andy Curran please, for the second question around the Standard Life brand and the propositions.

Andy Curran, Chief Executive Officer, Savings & Retirement UK & Europe

Good morning Andy, yeah, the brand clarity is tremendous for us, it gives us that heritage, a well-respected brand within particularly the pensions market, with the EBCs, advisors, trustees and the feedback we've had since purchasing the brand has been excellent and internally, we have increased and will see increased operational efficiency.

In terms of Andy your specific question around product and product investment. We've already invested quite significantly into our corporate pension's solution with Master Trust…

Having in scheme drawdown, ESG solutions working closely with ASI, we were very happy with the range of investment solutions we have in that space, and will continue to look to support the IFA market who introduced much of our existing pensions solutions to us. So, much work to be done there, we feel that there's a great opportunity for us to continue to support both the corporate channel as we currently do, focusing on our 14 million existing customers, and then making sure that we give the right level of support into the IFA space. Thank you.

QUESTION

Andy Sinclair, Bank of America

Sorry can I just follow up with Rakesh just on the tax point again, I realise the impact of that was very small, I'm really more looking at why, because if you're going from 19% to 25% tax that's about a 7.5% hit, I realise you'll probably meet your expectations elsewhere and offset part of that, but just, should I be thinking that you've more than offset a 7.5% hit or effectively is that offset by having actually a lower tax rate on certain elements?

Rakesh Thakrar, Group Chief Financial Officer

Andy that's a good question, so let me give you some more colour around that. So, the tax impact of the £0.3 billion is on our long-term free cash and therefore long-term cash generation and just important to remind people and this is just the in-force business only, so we're not allowing in our cash guidance any future new business and we've been pretty consistent with that, and then the reason why it's only £0.3 billion, is probably 3 or 4 things I'll probably just highlight.

One, is the fact that insurance tax generally is a complicated subject and not all the business attracts the same marginal rate increase as we've seen from that 19%-25% and that's part of the reason because certain businesses that were going to track the same increase in the marginal rate as that corporation tax increase that we've seen.

Second, is the fact that within our guidance we have allowance for corporate group relief and that means that the fact that the corporate costs that we are still incurring and the debt interest cost that we're incurring over that period, will give us some shielding in terms of the total tax impact on long term free cash…

The other two reasons I'll probably highlight. One is it doesn't come into effect until 2023, so for 2021 and 2022 that is still free of the increase from the tax. And finally the fourth area I'll just highlight is the fact that we already have IFRS net assets within the entities that have already been taxed and is already there on a post-tax basis, so that in itself won't incur additional tax either, so hopefully a combination of all those four areas Andy which means that the impact is only at a prudent £0.3 billion level. Andy back to you.

Thank you Rakesh. Clair, can we have the next analyst question please?

Clair May, Storm Events

We can, we have now got a question from Ashik Musaddi, Ashik if you would like to unmute your mic, please go ahead.

QUESTION

Ashik Musaddi, JPMorgan

Hi this is Ashik here, hi Andy, hi Rakesh. Just a few questions I have, one is on asset origination, slide number 27 - on that slide you mentioned that you planned to raise about £3 billion of illiquid assets this year and then £20 billion over 5 years. You currently have £10 billion of illiquid assets, so that would take your illiquid assets to about £30 billion. I mean, what am I missing here? I understand that there will be run offs of a bit as well, but these are illiquid assets so they should not run off that fast, so £30 billion of illiquid assets by the end of 5 years looks quite high compared to your 40% target…

So, what am I missing here, that's the first one.

The second one is on your funding capacity. You mentioned that you have £1.4 billion of funding capacity on slide number 44 - on what basis is that based and what are the assumptions that goes behind that in terms of inorganic funding? And the third one is, if I look at your next 3 year cash flow guidance, you are suggesting £4.4 billion of which, let's say if £800 million is the run rate for organic, that's about £2.4 billion so, that means you're looking to do about £2 billion of management actions. Does that math sound right? Yeah that's three questions would be great thank you.

Andy Briggs, **Group Chief Executive Officer**

Okay, thanks Ashik good to see you. So Rakesh do you want to take the second and third questions there, so the funding capacity and the maths around the organic and management actions over the next three years and then hand to Mike who can talk about our asset origination plans. Rakesh.

Rakesh Thakrar, Group Chief Financial Officer

Thanks and good morning Ashik. So let me take the second question about the funding capacities, this is £1.4 billion as you indicated in the slide and what this really thinks about is, based on our capital position and based on our leverage position, how much surplus cash do we have then to do an acquisition effectively without going to equity, and clearly any transaction will be based on what the target looks like and I think I mentioned this before - we need to understand the capital structure of the target, in terms of its capital position and also in terms of its leverage position…

And all other things being equal, if we can go and maintain as I've previously done and as I highlighted in my Capital Markets Day slides where I'm happy to go up to 30% and then come back down with the synergies, this £1.4 billion effectively assumes that I could go all the way to 30% in terms of additional debt raised and use that surplus cash above my liquidity policy to then invest in an acquisition, so hopefully that gives you that colour on where that £1.4 billion comes from.

In terms of the £4.4 billion cash generation, so yeah, you're absolutely right Ashik if you take 3 years of organic cash generation, and that's assuming we write new business, because we did say that our cash generation targets assume no future new business. If we write 3 years of new business, that offsets the heritage, then absolutely we would be having £800 million of organic cash generation because we'd have proven the wedge, and that means the balance would then be a combination, Ashik, from management actions that we'll continue to deliver and you'll have seen that in our BAU management actions this year…

We did deliver £0.7 billion of BAU actions so this gives us confidence, given the past 10 years that we'll continue to do that, but we also have £2.9 billion of free surplus within our life entities today. So a combination of management actions and the fact that we have the £2.9 billion free surplus gives me confidence on that £4.4 billion. Clearly if we write more business during 2021 and onwards, we'll be having more organic cash generation.

Now handing you to Mike Eakins on the asset origination.

Mike Eakins, Chief Investment Officer

Thanks Rakesh and morning Ashik. So just in the context of that £3 billion per annum current illiquid asset strategy, that's in the context of growing our BPA. So whilst our current target is £3 billion of illiquid assets per annum, we'd expect that to grow as our BPA business grows. I mean there's four other points that I'll just highlight in the context of that.

One is diversification. So we're actually able to achieve a significant amount of diversification by selling out of some of our illiquid credit and going into illiquids and really highlight that.

The second is, really expanding our origination. So we're expanding the asset strategies that we can go into in the illiquids complex, but also the geographies that we can go into and we think there's tremendous opportunities, for example over the coming next 2-3 years of entering the US dollar illiquid assets markets, particularly infrastructure.

The third point is, we remain highly, highly selective of the illiquid assets that we go into. We've got very, very strict hurdle criteria, in terms of originating illiquid assets and we pass on many more assets that we actually originate.

And the fourth and final point, I'd highlight is just picking up a point Rakesh made in this presentation, is that actually we have in house expertise to originate and manage those illiquids on an ongoing basis and we would expect to add to that expertise on a going forward basis so with that, I'll hand back to Andy.

QUESTION

Ashik Mussadi, JPMorgan

So, just one follow upon that, I still don't get £20 billion of illiquid assets over the next 5 years, how does that stack up with your target of 40%? Because you have £10 billion right now, £20 billion over 5 years, that's £30 billion. If that's 40% of your total asset base it means that you would have £75 billion of annuities by the end of next 5 years, versus £35 billion now. I'm just trying to understand if I'm missing anything on this math?

Andy Briggs, **Group Chief Executive Officer**

So, I think Ashik, what we're saying with the £20 billion is, that's the sort of level that we would be able to consider, you're right, that could well, that level could lead us to go ahead of the 40% which is not something I completely rule out, but at the moment we sit at 25% and therefore originating the £3 billion in 2021, is a positive step forward in support of our growing BPA business.

We only had sufficient illiquids last year with over £2 billion of origination, we only had sufficient to put 20% to the Pearl scheme buyout as Rakesh just said, so there's definitely a capacity here to grow, and the £20 billion in particular, we're very keen that government takes their Solvency II review very seriously, and recognises the opportunities for insurers to do an awful lot, because a large proportion of this illiquid asset origination is sustainable and there's a real opportunity for us to do much more around Build Back Better and Greener.

But I do want to make a couple of points just to add to what's been said. Firstly, we will not run any risk to the resilience of our balance sheet by the driving and creating value in annuities, and what I'd draw your attention to is, in the sensitivity page within Rakesh's presentation, one of the sensitivities is what is the impact on our £5.3 billion Solvency II surplus from 20% of our credit portfolio having a whole letter downgrade, so it's a whole letter, 3 notch downgrade.

And last time we published that sensitivity at the half year that was £0.6 billion, that's down to £0.5 billion. So what Mike and his team are doing is they're being very thoughtful about the way in which they're investing credit portfolio in order to keep that sensitivity. So that's the key thing to look at - if that starts to balloon up significantly then we would be taking more risk to our resilience, so a level of £0.5 billion, its negligible in the scheme of the £5.3 billion surplus, so that would be the key point I would draw out. Keep a close eye on that, as we go forward, that's something we want to manage carefully.

The final point I'll just make in terms of the funding capacity for M&A I would say, going forward, far more of our M&A will be done by the very strong levels of cash we're now generating. So historically, Phoenix's M&A has been heavily equity funded, and going forward, that's not to say if a deal was of a sufficient size, that equity would still remain a possible option, but we'd be able to do far more through our cash resources.

So, just to remind all the analysts, use the 'Raise Hand' function if you have questions. Clair can we go to our next analyst please?

Clair May, Storm Events

Indeed, we have Gordon Aitken. Gordon if you'd like to unmute your mic, please go ahead and ask your question.

QUESTION

Gordon Aitken, RBC

Yeah hi, so a couple of questions please. First on, we touched on it there, but post Brexit Solvency II reform of the risk margin and the matching adjustment - what's a realistic outcome on that? And secondly on longevity, can you please split out the £370 million longevity gain between base table and improvement assumptions? You mentioned that for the latter you've moved to CMI_2019, now that was a one month increase in life expectancy, so did that add or detract? And maybe if you could talk about the smoothing factor - last time I asked you, you said it was 8, so has it changed? Thank you.

Andy Briggs, **Group Chief Executive Officer**

Thanks Gordon, I'll take the first one and then pass to Rakesh to take the second one on longevity. So, look, I'm not expecting a material capital release from the Solvency II reforms and there's nothing in our numbers for any expectation around that at all, but what we are hoping for and looking for is 2 things. Firstly, that we see the risk margin reduces significantly, because I think we all agree and Sam Woods would agree with me that the risk margin is very sensitive to interest rates and therefore is too high in a low interest rate environment.

But if what happens is you end up, largely that's offset by transitionals, but if you end up with both sides of the balance sheet, the risk margin and the transitionals coming down, I think that's a net positive as far as a generalist investor is concerned, looking at insurance stocks. So I think that would be positive and of course at the moment, what we're all doing is, is we're all reinsuring our longevity elsewhere because the scale of the impact on the risk margin of longevity, and it would be nice to be able to make a more economic based decision with the risk margin at a more sensible level.

The big piece that we do think there's a real opportunity for, is to look at the way the Solvency II regime works and to look around the matching adjustment to enable a broader range of illiquid assets to be incorporated, because the insurance sector has a fantastic opportunity to support to

Britain Building Back Better and Greener as I said a moment ago, a large proportion of our illiquid asset origination - so last year we invested nearly £900 million in sustainable assets, so social housing, renewable energy and so on. There's the opportunity for us to do quite a lot more in that space which is, it would be great for our annuity business, to get the greater diversification Mike referred to and the better yield and to grow that business, and to support our customers in those markets, help those finance directors de-risk their defined benefit schemes, and it'll also be great for the broader society.

Rakesh, do you want to pick up the longevity question.

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thanks Andy and good morning Gordon. So on the longevity point, so I think the £370 million you were referring to was on an IFRS basis. So just to give you some further details on that. So, in terms of the split between base and improvements, about 1/3 of that roughly was on base and 2/3's therefore was on improvements. And you're absolutely right, we moved to the CMI_2019 and what I described previously was that within Phoenix we have a cause of death model, which would be further enhanced during the course of the year where we've applied our own social demographic characteristics of our portfolio onto that, taking into account there's the CMI_19. Now we're normally pretty conservative Gordon in our assumptions and moving to the new tables etc…

And there's areas where there is a little bit of conservatism, one of them is in the smoothing factors as you previously noted, we were at 8, we have then also reduced that to 7.5 so hopefully that gives you some more detail on what you're looking for, back to you Andy.

Andy Briggs, **Group Chief Executive Officer**

Thank you Rakesh, thank you for that Gordon. Good to see you. Clair can we have the next analyst please?

Clair May, Storm Events

Indeed, yes we have Ming Zhu. Ming if you would like to unmute your mic, please go ahead and ask your question, thank you.

QUESTION

Ming Zhu, Pamure Gordon

Good morning everyone, just 3 questions please. I think on Slide 39 there's a comment of your priority in terms of the M&A, and there's a comment of option to buy open business with complimentary capabilities - are these the type of open business that already had the same, are you looking at things already that have same product line as your existing, which will give you this scale? Or are you looking at open business that's products you currently don't write?

Because also I would try to tie back to previously, I think you had a comment of, you would be interested or looking at equity release manufacturers in the UK, so has that actually gone out of the way or still remain the case? So that's my first question on M&A please.

And my second question, is on the dividend policy. I think you have got a comment on slide 21, around dividend increase, with those two conditions. Could you just give a little bit of colour in terms of what do you mean by the dividend increase - are we looking at a progressive or one off? And it looks to me your condition one, you're almost there and the condition two, you're not too far off either if you exclude the one-off corporate tax etc…

I mean, I suspect you've already had your own forecast on this, what are you actually anticipating in terms of the time line, that this could be quite realistic. My third question is on Europe - what's the update on Europe in terms of strategy? Thank you.

Thank you Ming, good to see you. So, let me take the first and third of those and then I'll pass the second one to Rakesh. So I'll do Europe first, that will be nice and quick, no update today. As I said before, we'd had a number of unsolicited expressions of interest that led us to think it made sense to explore a range of strategic options to explore what would deliver the best value for shareholders, that exploration is ongoing and obviously we'll update when there is more to say.

So, in terms of M&A, the first thing I'd say is that M&A remains the key priority for the group. So, we do our heritage business, real resilience and cash generation and drive the integrations and deliver the benefits of those.

We're building a striving and growing open business and we do M&A. All 3 elements remain very important to us. Our primary focus in M&A would remain heritage businesses but we also would consider open businesses that meet our 3 key criteria's as I set out on the slides, and where it is complementary to our open business. I'd also say from an M&A perspective, we would look at smaller or larger deals, so both could be attractive to us.

In terms of the nature of open deals, I think it could be in areas we already play or it could enable us to broaden our proposition, so let me give you a couple of examples.

Most new corporate pension schemes that are set up today are set up under a master trust environment, historically they're either contract based or own trust, increasingly they're in this middle ground of master trust, and there's a lot of master trusts out there, and most industry commentators would expect there to be some consolidation of those master trusts in due course.

Now, one of the big advantages we have in this market is by running our open and heritage business side by side, the deal we have with Tata Consultancy Services and Diligenta around their BaNCS platform, means that we get by far a market leading cost efficiency on our workplace pensions because we negotiated that as part of it sitting alongside what we do on the heritage side. So, for us to take sub scale master trusts and bring them in to that very, very attractive platform and cost base, could be really attractive to us.

Equally I've mentioned before for example, group protection is an area where corporates in the UK, a key market for us, we help them do their DB de-risking through our BPA business, we help them with their workplace pensions through our workplace pensions business, the third thing they like to do, 3 things altogether, is protection and wellbeing.

So, we could consider acquiring a group protection business as well. But in any of those adjacent product areas, we will have the option to buy, build or partner. Equity release mortgages is another area we would look at and think about, we would have an option of buy, build or partner and we would consider what would be the best option in each of those areas.

Probably the final thing I'd say just on M&A, and you can see from the slides, we still have a huge book of work on the go, we are, as you can see from our management actions and synergy targets, generating huge amounts of cash and value from our integration activity, so I'm still not pounding the streets desperately looking for the next deal at all. If the right deal came along, we would have both the fire power and the capacity to deal with it, so we could do, but if we didn't do another deal in the next year or so, I wouldn't be unduly perturbed given, if we did a deal we'd need to leave it sat on the side for a period of time, as we make headway through finishing off the Standard Life transition and with the ReAssure integration.

Rakesh do you want to pick up the dividend policy question please?

Rakesh Thakrar, Group Chief Financial Officer

Yep, thanks Andy and good morning Ming. So on the dividend policy, so as you're aware Ming we have a stable and sustainable dividend which is board approved and that will be the case. But what we've set out here on 21 is how that dividend can potentially grow through organic growth and we've set out these two conditions. First is that we need to be able to prove the wedge and you rightly pointed out, we've got £766 million which is a 59% increase from the prior year, so I'm confident that we'll be able to grow that £766 million further in the future.

And the second condition is on the long-term free cash, whether recurring sources of cash has got to be greater than the uses of cash, for then the Board to then consider whether this is sustainable and then whether to then grow the dividend. I'm talking here about organic growth, rather than going to a progressive dividend, this is more that growing the dividend organically in relation to these two conditions.

Now, in terms of that second condition, again you rightly pointed out Ming that if you ignore those one offs, such as the tax change, the sale of the business to SLA and actually the investment of the growth in the £0.2 billion which again is also a one off that was broadly flat. So this gives me confidence about meeting those two conditions, although I'm not giving a timeline on it because what's key is that we maintain our financial discipline and when chasing the growth that we look at value rather than volume, but certainly in terms of those two conditions I am confident about the future.

Andy, back to you.

Andy Briggs, **Group Chief Executive Officer**

Thank you Rakesh, I'm conscious that I'm largely talking to myself here, we will try and keep our answers a bit quicker now so that we get through more of the analyst questions, we've still got a bit of time left, so Clair can we have the next analyst please?

Clair May, Storm Events

Indeed, Andrew Baker, if you'd like to unmute, please go ahead.

QUESTION

Andrew Baker, Citi

Hi guys, thanks for taking my questions, just two from me please. So, for the BPA's can you just remind me the runway for achieving the 5% strain target and then if there's any comments you can make on the strain you've seen on transactions year to date as well that would be helpful.

And then on the hybrid model for ReAssure, so you mentioned the ability to integrate multiple acquisitions at once, are there any other operational benefits for a hybrid model? Just because it seems like it would be cost prohibitive to run two systems side by side on an ongoing basis. Thank you.

Andy Briggs, **Group Chief Executive Officer**

Ok, thanks Andrew. I'm going to ask Andy Curran to pick up the first of those on the BPA runway and the market year to date and Andy Moss can talk about the ReAssure integration and model. Andy Curran first please.

Andy Curran, CEO Savings & Retirement – UK & Europe

Good morning Andrew, yes thank you for your question. As you know our approach in the BPA market here is to grow and expand, and obviously manage that capital strain down to around about 5%. 3 main features for that from my perspective - one, obviously talking about sourcing of illiquid assets, best in class and working with Mike and his team.

Optimising the internal model for obviously getting as good a capital treatment as we possibly can and optimising our approach to reinsurance. On top of all of that, what we have done is built out the capability in the team. So this time last year we were probably quoting in about a third of what we saw in the market, we would now expect to be, this year, looking at quoting for 70/80% of the market, which is good. We'll continue to be selective and proportionate and we will focus on that, making sure that we get the returns that we are looking for.

In terms of the trajectory and the market and how it's looking so far this year - nothing has surprised me as yet, our pipeline is reasonably positive and we're feeling pretty comfortable about where we are in terms of what's already been outlined in today's presentation and what we've covered at the Capital Markets Day back in November. Andy.

Andy Moss, Heritage Chief Executive Officer

Thanks Andy and thanks Andrew for your question. So, I think you're asking effectively about the different administration systems we've got, with the advantage of having Alpha with ReAssure and BaNCS on our traditional Phoenix business.

So, where we are today, the costs of running the systems are relatively similar but both of the systems very much have integrations very much in progress at the moment from the previous acquisitions that we've done. So, we're continuing with those, and what it does do, it gives us quite a lot of optionality in terms of any future acquisitions. But it certainly doesn't preclude us looking at that as a longer-term option.

Andy Briggs, **Group Chief Executive Officer**

Clair, next question please.

Clair May, Storm Events

Yes, we have a question please from Steven Haywood. Steven, please unmute and go ahead.

QUESTION

Steven Haywood, HSBC

Good morning, thank you very much. I've got two questions.

One's following on from the previous question on the ReAssure synergies - you say that they don't include the phase 3 integration, now I might be barking up the wrong tree here, but can you provide an idea of how much of the Standard Life Aberdeen portfolio, how much of the £1.2 billion synergies are in their phase 3 synergies, if that's possible?

And then the second question is on the internal model harmonisation process, can you give us an update on where you are here and when you expect regulatory approval, thank you?

So, in the interests of time, Rakesh, I'll give you both of those please?

Rakesh Thakrar, Group Chief Financial Officer

Thanks, let me start with the internal model harmonisation one first. As you know Steven this is a complex program and as I mentioned, this is something that the application will be going in later this month. We've been working really well with our regulators and making sure we meet their expectations as well as the expectations of generally having a model that works for our open and also our heritage businesses and getting that diversification.

Once the application goes in at the end of March, the regulator has up until 6 months to get approval, so we're looking at the end of Q3 before we can start using that model in earnest.

In terms of the ReAssure synergies - so we've already had, in terms of having that hybrid model, there's no allowance for the Customer and IT in relation to that. Clearly the model with Standard Life was a lot different and we're moving everything with TCS, and about roughly around half of our overall synergy target in the cost element comes from that part phase 3 of that model. Andy back to you.

Andy Briggs, **Group Chief Executive Officer**

Thanks Rakesh and that cost synergy target I think I'm right in saying is £75 million so you're talking £40 million per annum, £400 million of benefits would be the number roughly on the SLA side.

Ok, next question please Clair.

Clair May, Storm Events

Oliver Steel, Oliver please unmute and go ahead.

QUESTION

Oliver Steel, Deutsche Bank

Hello Andy, hello Rakesh, 3 questions from me. First is, can you just take me through the maths of the £0.2 billion increase in the 2021-2023 cash target, because you should have got £150 million over those 3 years from last years new business, you had the longevity release from last year, I think you had £700 million increase in the Solvency II surplus in the first quarter. I'd have thought that the increase over the next 3 years should be a lot more than £0.2 billion.

Second question is on the sustainability of bulk annuity volumes beyond the next 3 years - if you're getting so much over the next 3 years from your own Phoenix pension fund, are you sure you can actually keep that going? Obviously that's important for any dividend decision going forwards.

And then the third question on the dividend. Just to follow up on Ming's question. You talked about, Rakesh, you talked about growing the dividend organically but not progressive. Perhaps you just explain the subtlety of the difference to me.

Andy Briggs, **Group Chief Executive Officer**

Sure, so let me, I will take the second of those quickly and then let Rakesh cover the first and third. So, in terms of the sustainability of BPA beyond 3 years, I'm very comfortable indeed, because we've only got a 6% market share on external business at the moment, in a pretty concentrated market. There's only 3 or 4, 3-5 other players there, so with Tom Ground on board and Tom is bringing on board Kunal Soodand others, a very strong team from a range of different places, a number of people coming from different employee benefits consultants or other competitors in the markets, and as Andy Curran has already said, we've got a 6% share by quoting on 20%-30% of the market, if we start quoting on more of the market I think we can grow that significantly.

But the great news for us is that we've got the Pearl buy-in, the other 75% will happen over the next 2-3 years, so we're confident that is there, and that gives us the time to continue to deepen our capabilities to grow that share of the external market. Rakesh do you want to pick up the first and third for Oliver please?

Rakesh Thakrar, Group Chief Financial Officer

Yeah, thanks Andy and good morning Oliver. So, on your first question on the maths, I think there's just a lot of moving parts but I think it's fair to say, I have been conservative in those, in the increase in the cash generation target, so just to give you some colour. You're absolutely right in terms of the new business growth that we've experienced during 2020, also the management actions over-delivery as well.

But I also need to take into account the fact that I am putting back further investment in that growth strategy like I mentioned, if you take roughly £20 million certainly in the short term and maybe slightly higher, if you take that £20 million per annum over the next 3 years, that also will offset. As well as the impact of the economics, we have had adverse economics of £0.2 billion so that is also impacted on that short term cash generation target.

And in terms of the assumptions Oliver I'll probably just say that longevity, absolutely right, in terms of longer time that will come through, but what you've also got offsetting that in the short term as you would have seen in our results at half year, we did have strengthening in our ERM assumptions that we put through when we adjusted the inflation assumptions in that and also strengthened our property volatility in that assumption, and we also looked at the persistency assumptions as well at that point. So we have some offsets within the assumptions line, notwithstanding the benefit coming through on longevity, but if you take that overall, those changes, we've increased it by £0.2 billion to £4.4 billion, but as I said there's a lot more resilience there within the life companies over the next 2-3 years, so we're not taking all the cash out from those life companies, we've left a good amount of cash still in there post 2023.

On the dividend point, I think that the point I was making was the fact that given this is a stable and sustainable dividend policy the Board will have a decision to make and if we manage to meet those two conditions, or whether any increase is sustainable and therefore I'm not going to a progressive dividend, what I'm saying is, at that point in time, any increase we need to ensure is sustainable, but if we continue on our growth journey and continue to grow that long term cash generation from incremental new business, we will continue to review that on an ongoing basis as organic growth rises, we will then look to see whether that's appropriate to increase that dividend on an organic basis.

Hopefully that makes a little bit more sense Oliver. Back to you Andy.

Andy Briggs, **Group Chief Executive Officer**

Thanks Oliver, great to see you. Just a quick point to add to what Rakesh has said there. So, one of the slides we have in the appendix shows the life companies surplus above its capital management policy and we talked at the Capital Markets Day about that. That actually increased last year so in spite of the £1.7 billion of cash generation that we had, the surplus actually increased in the life co.'s and you can see that in the appendix, so obviously the resilient cash generation is in very good shape.

Clair, we've probably got time for maybe one or two more analysts before we need to close up, so next analyst please?

Clair May, Storm Events

We have Larissa, Larissa if you'd like to unmute, please go ahead.

QUESTION

Larissa Vande Deventer, Barclays

Thank you and good morning. 3 quick questions. The first one, you mentioned that, if you didn't do another deal this year, you wouldn't necessarily be perturbed, if Phoenix is going to be sitting on cash, how do you deal with the potential drag on ROE to enrich those funds near term?

Second, you previously announced that you didn't want to exceed certain balance sheet metrics on your bulk purchase annuities, with more people coming into the team would you consider revising that cap upwards?

And last on the illiquids, you did mention that you turned down more opportunities than you accept, are there enough opportunities out there to meet your new target for illiquid assets?

Andy Briggs, **Group Chief Executive Officer**

Thank you Larissa, good to see you. So, I'll take the first two and then pass the mic for the third. So, we think the outlook for M&A is very attractive and that's because many insurers unlike ourselves have struggled with their balance sheets, have struggled with cash generation, cash coming up through the group to holding company level, struggled with their dividends, and the desire to release trapped capital to deal with the cost inefficiencies with legacy systems we think is stronger than ever and therefore and M&A remains a core part of our strategy, and therefore our expectation is we would allow the cash to build up for a period of time, because we think the outlook for M&A is attractive but clearly if we didn't see a positive outlook for M&A, then we would need to think again on that but plan A would be…

And I said a moment ago, if we can do deals for cash without having to raise equity, then the potential for that to flow through in dividends at a higher level more rapidly becomes I think really quite attractive.

On the balance sheet metrics and annuities, so as I answered to a previous question, just to quickly recap, the critical thing to focus on, is that sensitivity, the credit sensitivity, and within the sensitivities and that's what we're managing.

So, I don't mind if our annuity book increases at a reasonable rate, provided that sensitivity stays at a modest level relative to the £5.3 billion of surplus, so, we've given that whole area more thought and we think that's the thing to focus in on and focus on, and that's where Mike and the team did a great job last year, in particular block trades out of BBB to get that below 20% and in terms of moving more assets into US dollar credit and better diversification, actually brought that sensitivity down in spite of the annuity book growing a little last year.

Mike, do you want to pick up the question on illiquids and are there enough opportunities out there?

Mike Eakins, Chief Investment Officer

Sure, morning thank you Larissa, thanks for your question. So, you're absolutely right, we turn down significantly more illiquid assets than we actually originate and we really do focus on quality over quantity. There's still significant and reasonable pick up over comparable liquid bonds in that illiquid space and we're even seeing that this year when credit markets are going towards if not at all time tights.

We're very focused on diversifying our portfolio and that does mean investing in a range of different illiquids, so increasing the asset types and the geographies, and last thing I'd say is we really do believe we have a real structural advantage because we can source illiquids through our global network of asset management partners, with ASI being our core asset management partner, and we're also building up the capability to directly originate illiquids. So there is, it's competitive in the illiquid space, there's no doubt about it, but we think our disciplined approach to origination, combined with those structural advantages I just spoke about, means we're in a pretty good place to originate the illiquids we need to back the BPA business that Andy Curran and Tom Ground are originating. Andy back to you.

Andy Briggs, **Group Chief Executive Officer**

Thanks Mike and I think we've got time for one very quick final question. Clair?

Clair May, Storm Events

Yep, our last question comes from Louise Miles. Louise, if you'd like to unmute, please go ahead.

QUESTION

Louise Miles, Morgan Stanley

Hi, good morning everyone. Just two very quick ones from me. So, the first one is on the European business, I'm just wondering, I think the 2019 SCR for the two businesses in Europe was about £550 million, I'm just wondering, obviously that's a very small amount compared to the group context, but what is actually the diversification benefit that's seen between the UK and the European businesses within the SCR, so that's my first question?

And the secondly it would be really good to hear a bit more about the performance of the ERM book in 2020, and in particular any impact from any higher than usual redemptions, early redemptions in the year, thanks.

Andy Briggs, **Group Chief Executive Officer**

Ok, I will get Rakesh to take the first one and then he can either take the second one quickly as well or pass that to Mike but Rakesh if you take the first one please.

Rakesh Thakrar, Group Chief Financial Officer

The first one very quickly, Louise and good morning. There is no diversification benefit with the European business, we are operating two internal models within the group, within the legacy Phoenix and legacy Standard Life. The business in Europe is on a standard formula basis so really just taking the sum of the parts there, so there is no diversification on that European business. I'll hand over to Mike on the ERM book.

Mike Eakins, Chief Investment Officer

Thanks Rakesh and good morning Louise. I mean the main dynamic that we saw in the equity release market last year was a significant drop off in volumes as the first lockdown took hold.

But actually, in aggregate, the equity release market held its own with volumes of about £3.9 billion and actually our market share for 2020 was at 15% compared to 13% in the year before.

To date we haven't seen significant changes in the underlying consumer behaviours in terms of prepayments etc… so with that I'll hand back to Andy.

Andy Briggs, **Group Chief Executive Officer**

Thank you Mike and thanks Louise, thank you for your questions. That's us out of time, but obviously, more than happy to follow up with the sell-side analysts through Claire and Andrew and the team and equally the buy-side. You know, it was a landmark year for us last year in 2020, having completed the ReAssure deal, we're now the UK's largest long-term savings and retirement business and our resilient models meant we kept paying our dividend. We're the 27th highest dividend payers in absolute terms in the FTSE 100 and we're very keen to talk about it. So on the sell-side or the buy-side, if anyone wants to follow up we'd be delighted to do so and with that, thank you very much indeed for joining us and we will catch up again soon. Thank you.