PHOENIX GROUP

Cash

Resilience

Growth

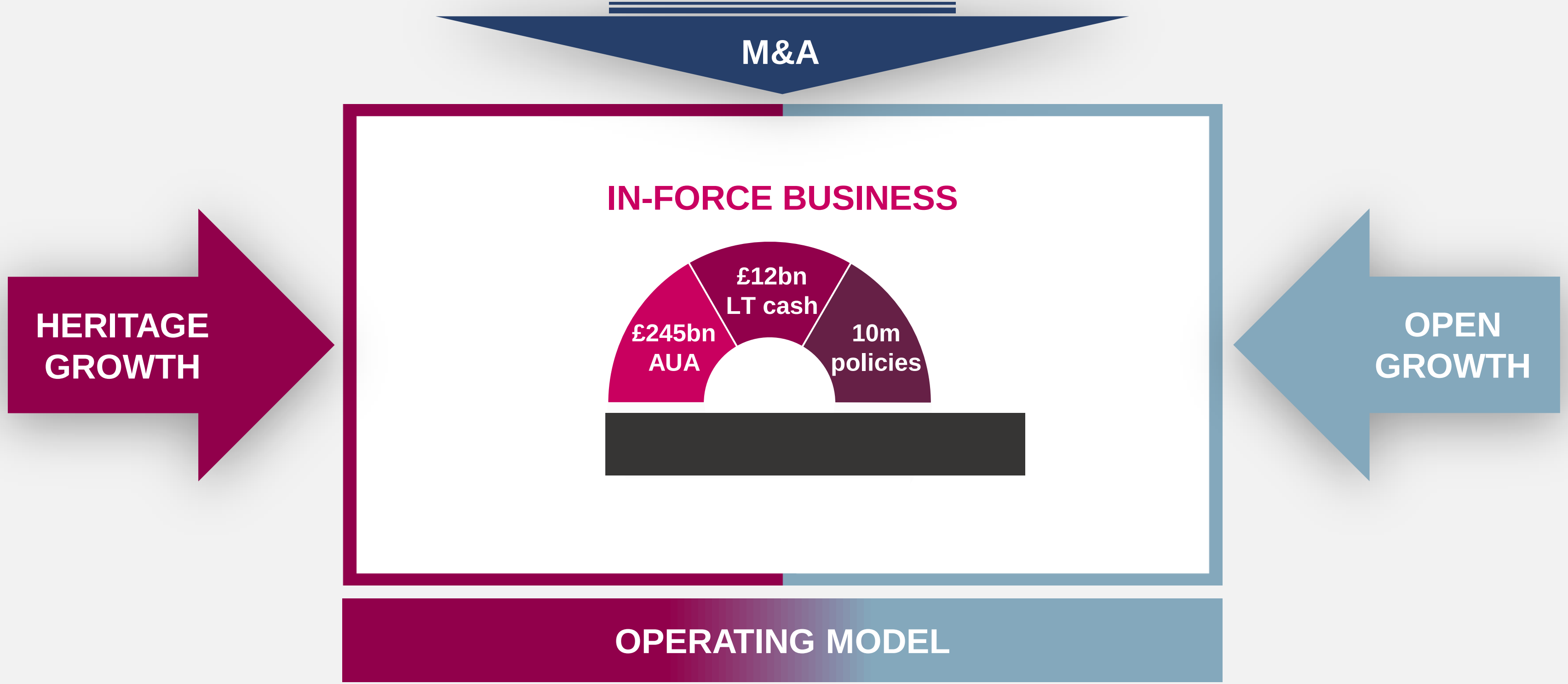
Phoenix Group Capital Markets Day

28 November 2019

Nicholas Lyons

Chairman

Phoenix delivers cash, resilience and growth



Phoenix continues to deliver against its 2019 strategic objectives

Cash	Resilience		Growth	
£707 million	**£3.0 billion** [1]	**156%** [1]	**£235 million**	**£205 million**
2019 cash generation This exceeds the upper end of the £600 - £700 million target range [2]	Q32019 Estimated PGH Group Solvency II surplus	Q32019 Estimated PGH Group Shareholder Capital Coverage Ratio	YTD2019 Incremental long-term cash generation from Heritage business growth	Q32019 Incremental long-term cash generation from Open business growth

See Appendix III for footnotes

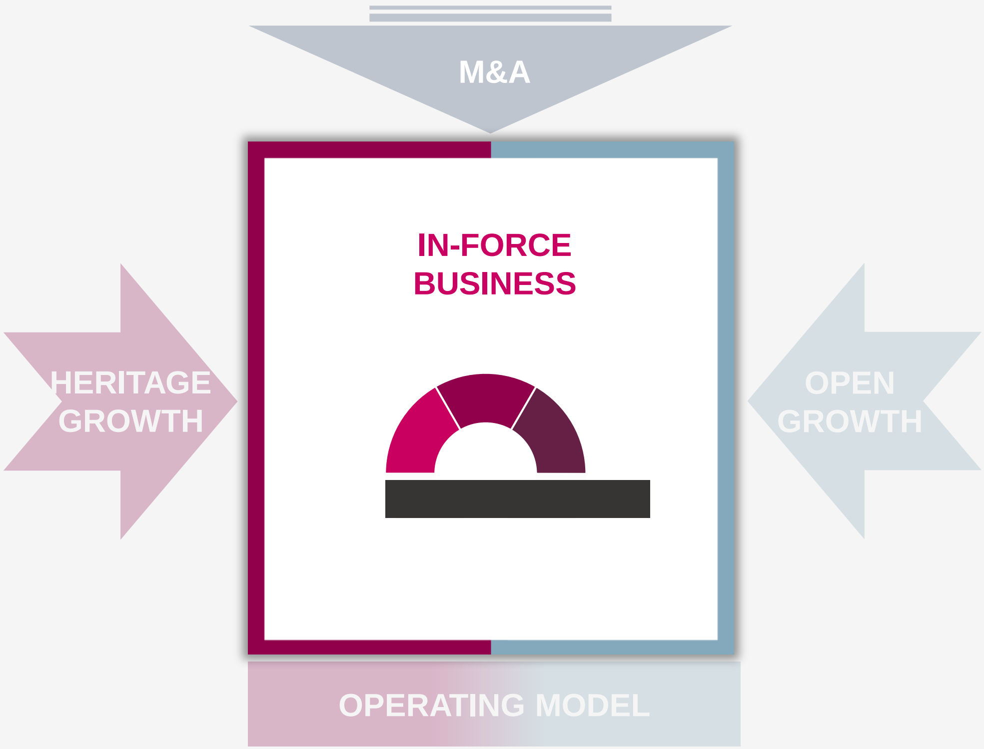
Agenda

1	Introduction	**Nicholas Lyons** Chairman
2	**Management of the in-force business**	**Andy Moss** Chief Executive, Phoenix Life and Group Director, Heritage Business
3	Growth of the Open business	**Susan McInnes** Chief Executive, Standard Life Assurance Limited and Group Director, Open Business
4	Growth of the Heritage business	**Simon True** Group Corporate Development Director and Group Chief Actuary
5	Transformation of the operating model	**Tony Kassimiotis** Group Chief Operating Officer
6	Sustainable long-term cash generation	**Rakesh Thakrar** Deputy Group Finance Director
7	Consolidation in the life insurance industry	**Clive Bannister** Group Chief Executive

MANAGEMENT OF THE IN-FORCE BUSINESS

Andy Moss

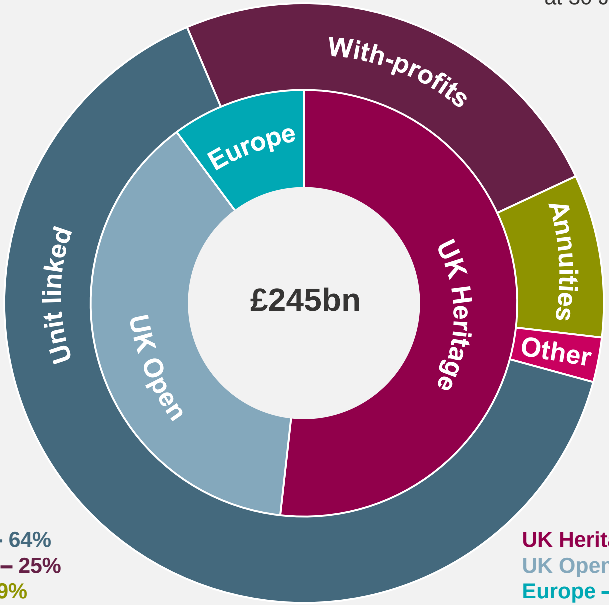
Chief Executive, Phoenix Life and Group Director, Heritage Business



We have a well diversified in-force business

Diversified in-force business

at 30 June 2019



Unit linked – 64%
With-profits – 25%
Annuities – 9%
Other – 2%

UK Heritage – 52%
UK Open – 38%
Europe – 10%

Strategy

- To deliver value to shareholders and customers; and
- To improve customer outcomes

Key attributes of in-force business

Cash

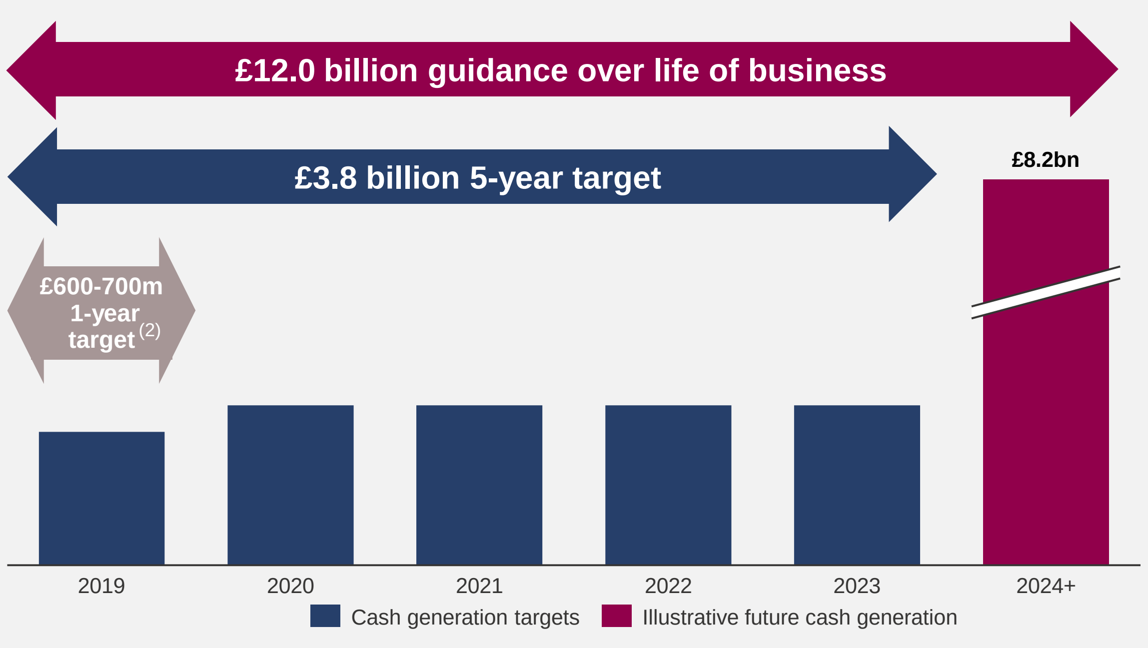
- Organic cash emerges over time
- Management actions enhance cash generation

Resilience

- Strong capital position
- Low risk appetite brings resilience to free surplus

Phoenix's in-force business will deliver £12 billion of cash generation

Illustrative future cash generation



Includes cash generation from in-force business

Excludes new Open business, BPA and M&A

Excludes management actions post 2023

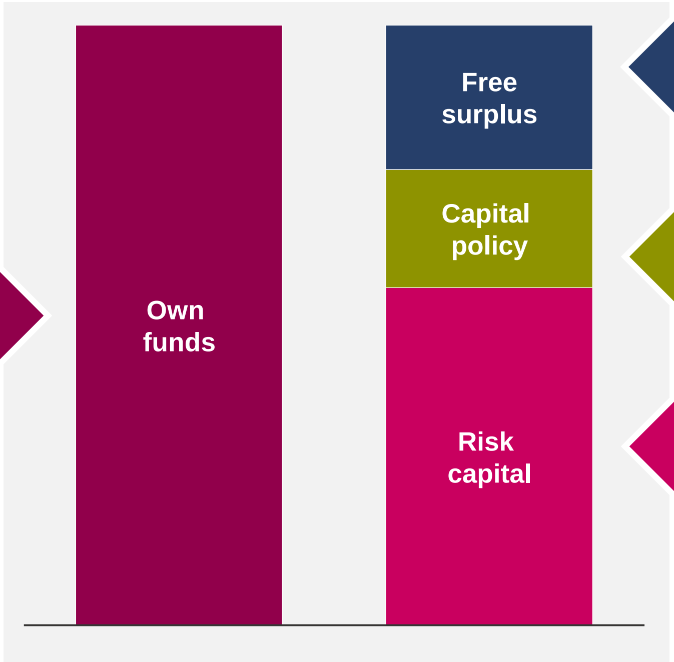
See Appendix III for footnotes

Cash generation comes from Life Company free surplus

Own funds

- Own funds = assets less liabilities
- Assets are fair valued
- Liabilities recognised on “best estimate” basis plus a risk margin

Solvency II balance sheet



Free surplus

- Capital available to distribute to Group as cash generation

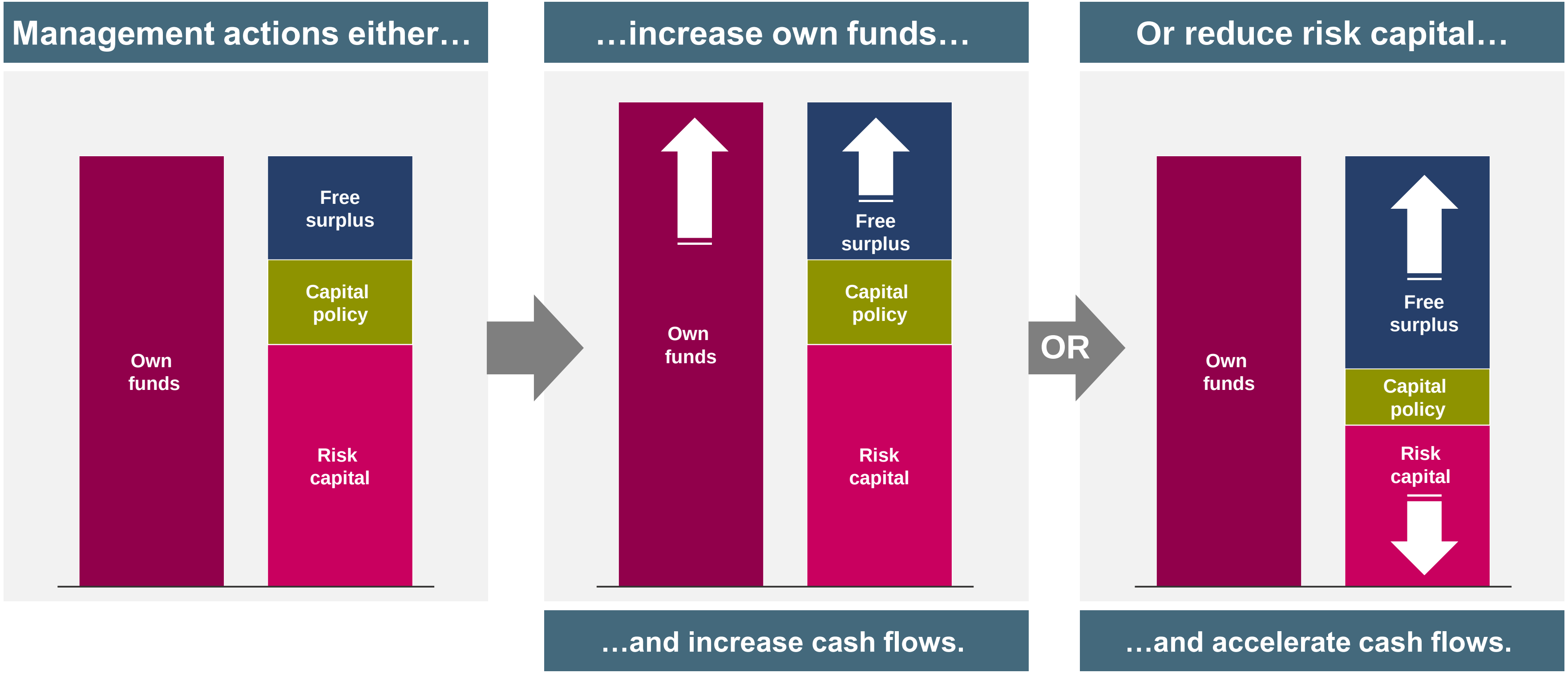
Capital policy

- Additional capital buffer set by management

Risk capital

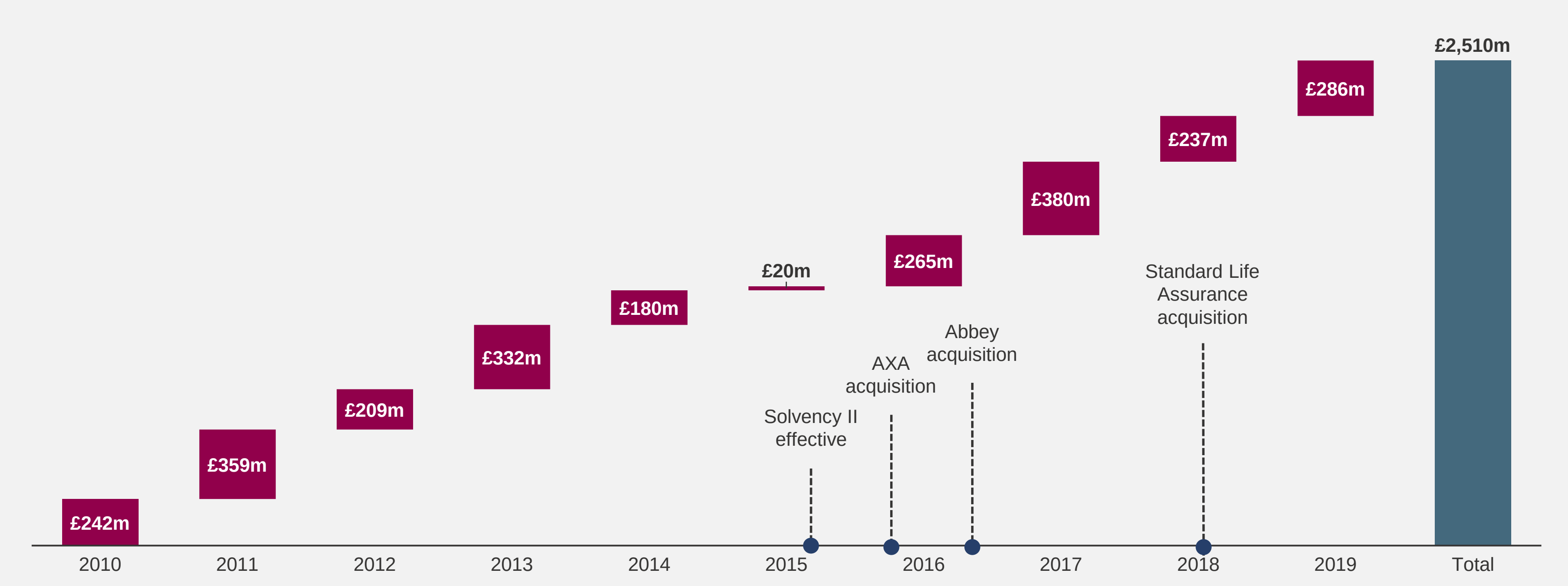
- Regulatory capital requirement on a 1 in 200 year calibration

Management actions are focused on increasing free surplus



£2.5 billion of cash generated from management actions in the last decade

Core competency of delivering management actions year on year



We have a long track record of delivering a wide range of management actions

Increase own funds

Cost efficiencies
Improvements in outsourcer cost per policy, internal costs or investment fees

Transitional benefits
Accessing transitional measures on acquired business

Asset liability management
Investment of annuity backing assets in illiquid asset classes

Decrease risk capital

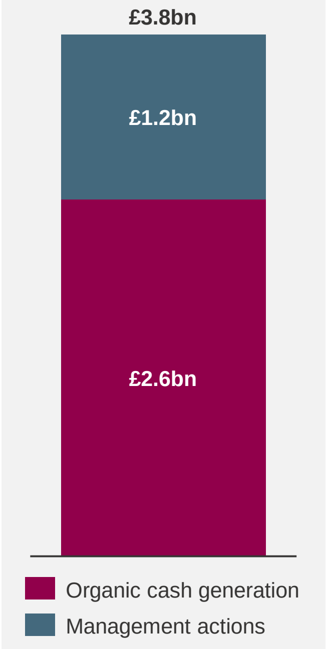
Reducing risks
Hedging of equity, currency and interest rate risk and reinsurance of longevity risk

Diversification benefit
Accessed by internal reinsurance and Part VII transfers

Capital harmonisation
Single internal capital framework, internal model and approach to risk management

And a strong pipeline of future management actions

Cash generation target 2019-2023



Opportunities

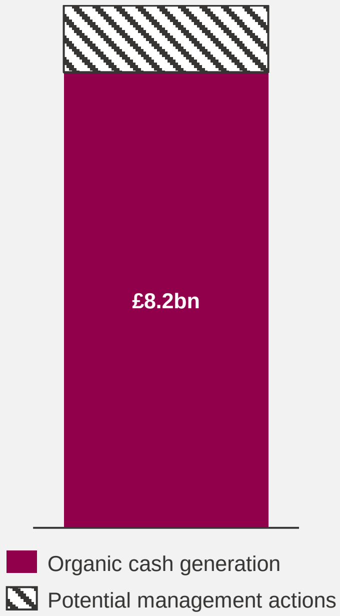
- Operational management
- Restructuring
- Risk management
- Effective partnerships

We will deliver £1.2 billion of management actions by 2023

2020	2021	2022	2023
Strategic Asset Allocation			
Balance sheet optimisation			
Transition cost synergies		Transformation cost synergies	
Internal Model Harmonisation			
	SL Intl Internal Model		
	Single UK Life Co Part VII		
Fund restructuring			

Our changing environment is a source of opportunities for further management actions

Cash generation guidance 2024+



Regulatory change

- Changes to the regulatory capital regime bring opportunities to maximise capital efficiency
- Pensions dashboard may encourage pot consolidation

Digitalisation

- Demand for digitalisation from customers brings opportunities to improve customer journeys and reduce costs
- Move to a single, modern administration platform drives efficiency

Future M&A

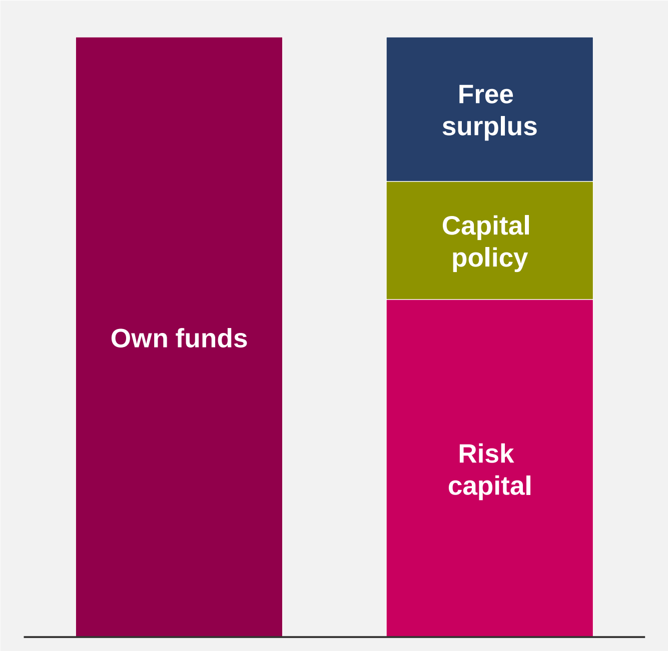
- M&A provides opportunities for cost and capital synergies as we migrate the acquired businesses onto our operating model and leverage the benefits of scale

Macro economic

- Changes in the macro economic environment may lead to an evolution of how we categorise and manage unrewarded risks

Our approach to risk management brings resilience to free surplus

Solvency II balance sheet



Principles

- Protect solvency
- Optimise free surplus
- Deliver resilience

Approach

- Board sets an appetite for the sensitivity of free surplus to market and insurance risks

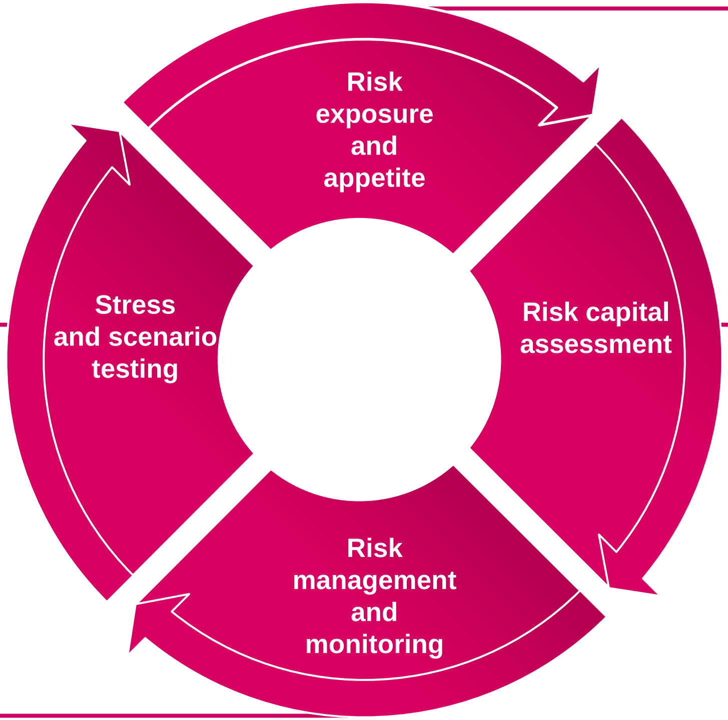
Application

- Dynamic management of risk exposure to remain within risk appetite

Risk management is a continuous process

- To gain insight into risks across a plausible stress environment
- Informs understanding of risk and setting of risk appetite

- Risk capital monitored on a weekly basis whilst risk exposure monitored on a monthly basis, using proxy models
- Life Co regularly review exposures and manage objectives through hedging



- Annual review of risk appetites presented to the Board for approval
- 1 in 10 risk appetites are set with respect to impact on free surplus

- Risk capital calculated on a quarterly basis using actual model runs
- This includes regulatory SCR requirement based on a 1 in 200 year event and an additional capital policy set by management

We use stress and scenario testing to better understand risk exposures

Univariate stress testing

- 1 in 10 year events run semi-annually
- 1 in 20 and 1 in 50 year events are run annual
- Used to inform risk appetite monitoring
- Daily solvency monitoring

Combined scenarios

- All risks scenario used to set capital management policy
- Additional scenarios to respond to recent trends
- PRA and EIOPA stress testing performed

Reverse stress testing

- Scenarios to test business model viability
- Used to validate mitigating actions and assess appetite to retaining residual risks

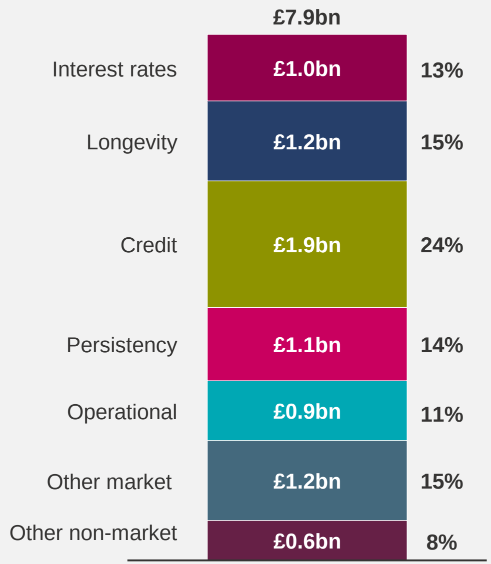
Qualitative testing

- Qualitative scenarios for tail risks
- Considers strategic, operational and customer / conduct risk
- Performed annually and used to validate mitigating actions

Case study: Interest rate is a key risk for Phoenix

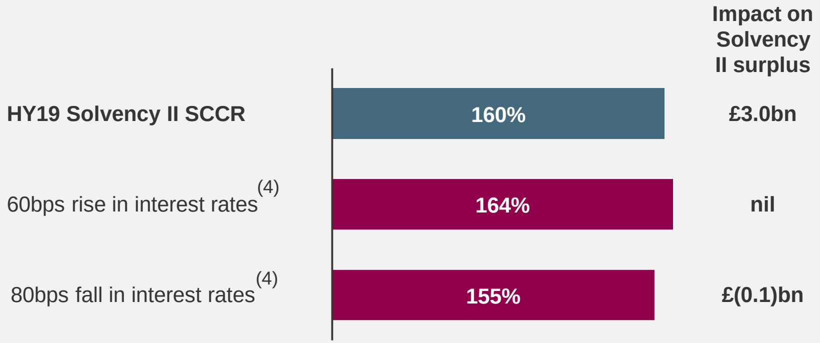
PGH Group undiversified SCR[3]

at 31 December 2018



Interest rate risk

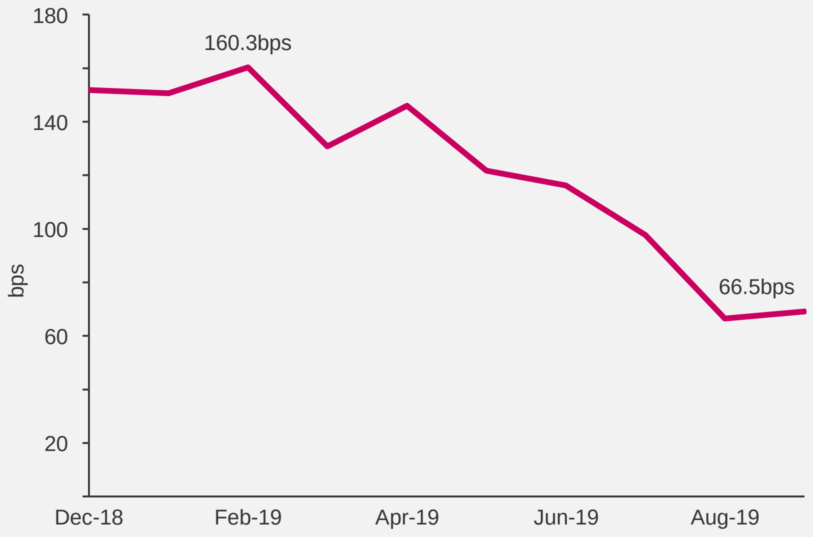
- Interest rate risk arises where the impact of changes in interest rates differs between assets and liabilities
- This primarily arises on contracts with guarantees e.g. annuities
- We manage our exposure to interest rates through Asset Liability Management and hedging



See Appendix III for footnotes

Case study: Phoenix's dynamic management of interest rate risk delivered £85 million benefit to Solvency II surplus

15 year swap rates



Routine management

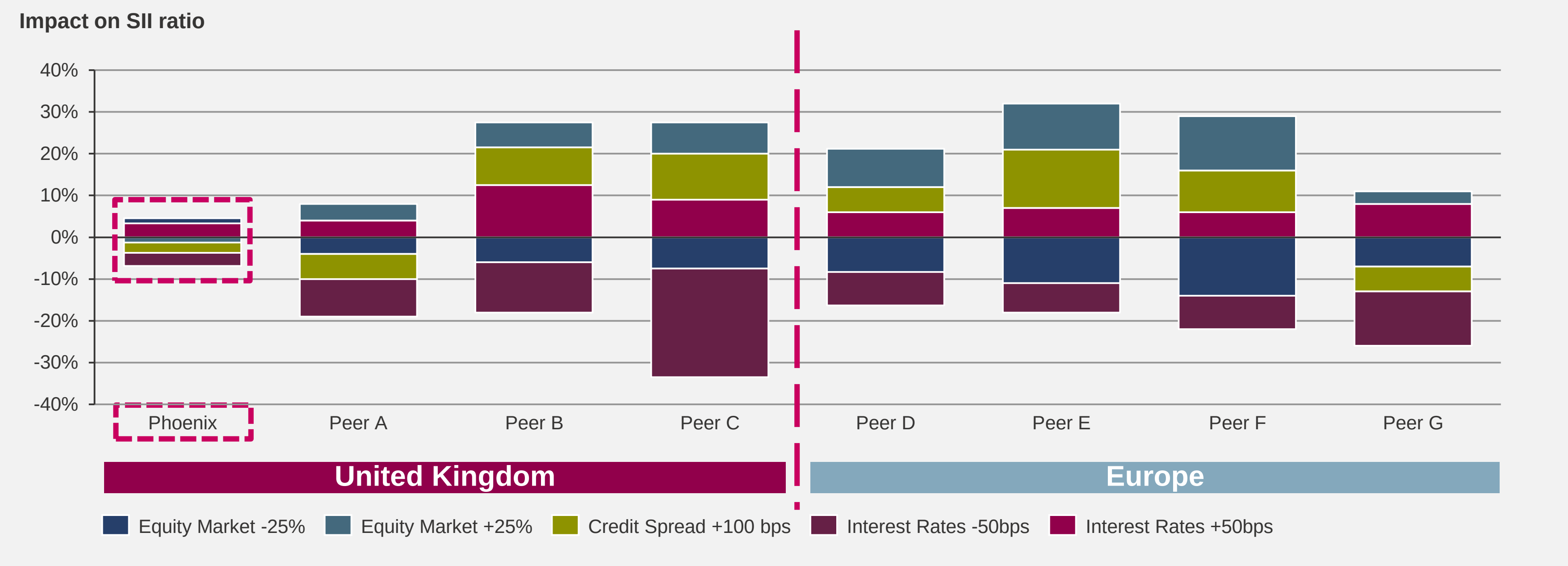
- Regular entity level risk based assessments. At least once a quarter
- Existing hedges rebalanced to adjust for economic movements, management actions and model/methodology updates

Dynamic management

- Generated solvency benefit by unwinding existing swaps
- Managed to reduce the rates sensitivity by purchasing additional swaptions

Phoenix's resilience to market risks is strong relative to peers

HY19 Phoenix Shareholder Capital Coverage Ratio (SCCR) sensitivities relative to Life peers[5]



See Appendix III for footnotes

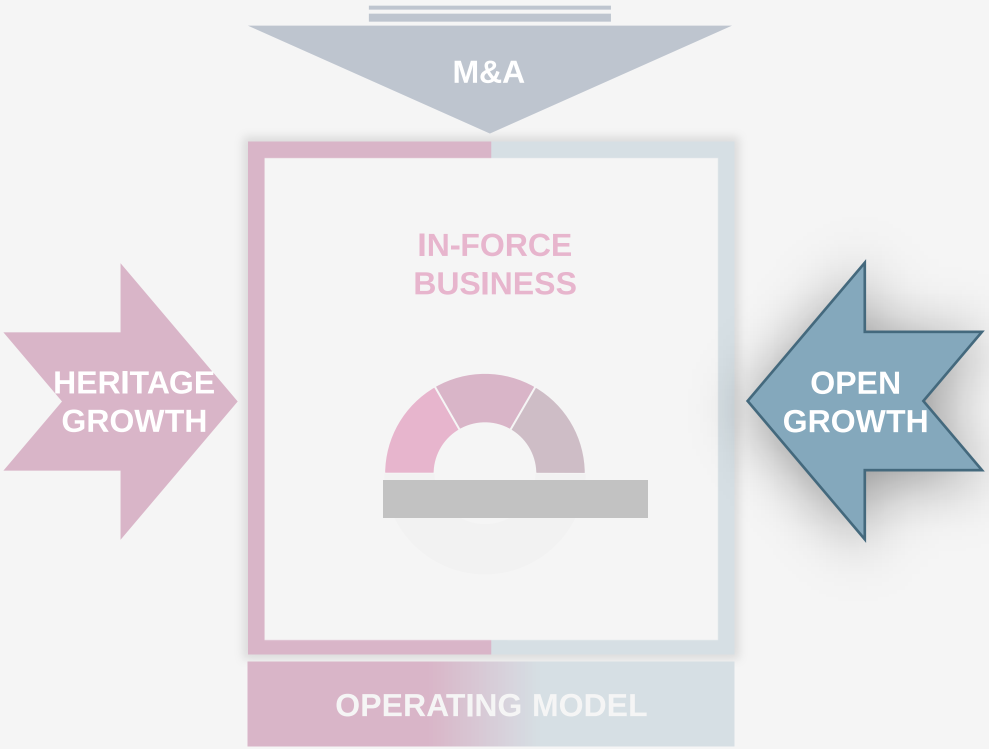
Key messages

- We have a single strategy for managing Heritage and Open in-force business
- In-force business will deliver £12 billion of long-term dependable cash generation
- £2.5 billion of cash generation delivered from management actions in the last decade
- Our risk management framework brings resilience to free surplus
- Phoenix's resilience to market risks is strong relative to peers

GROWTH OF THE OPEN BUSINESS

Susan McInnes

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



Phoenix's Open business is growing

Open business

UK Open
Standard Life
- Workplace
- Retail
- Wrap SIPP

SunLife
SunLife
- Protection products

European Open
Standard Life
- Germany
- Ireland
- International bond (UK)

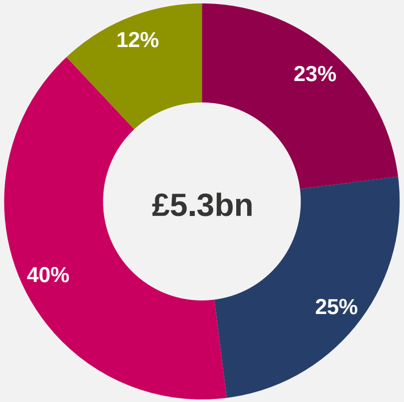
Key messages

- Open business is capital light and value accretive
- Workplace is the engine of the Open business
- Growth of the Open business is incremental to £12 billion cash generation guidance and enhances dividend sustainability
- £205 million incremental long-term cash generation from new Open business by end Q319

£205 million of incremental long-term cash generation from Open business growth

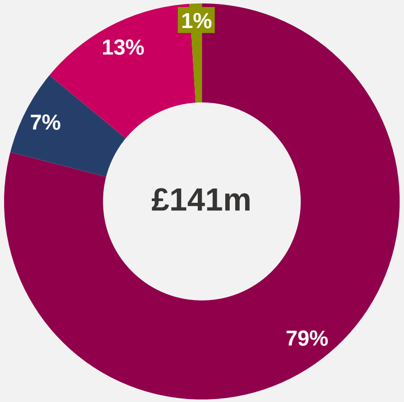
Gross inflows on new business

at 30 September 2019



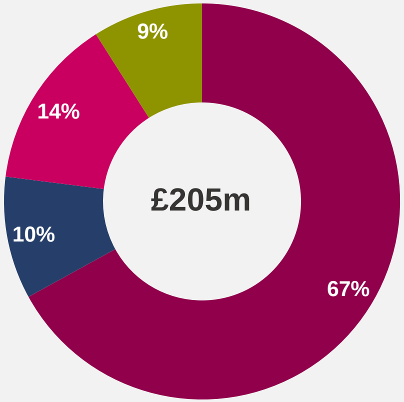
New business contribution(6)

at 30 September 2019



Long-term cash generation

at 30 September 2019



Workplace | Retail pensions | Wrap | Europe

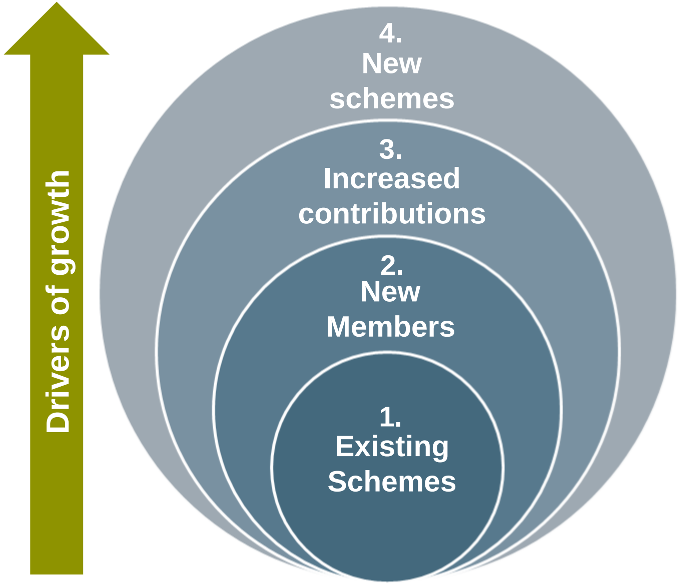
See Appendix III for footnotes

Workplace is the engine of the Open business

- Growth of our workplace business delivers the majority of incremental long-term cash generation
- We retain existing clients and compete for new schemes through our strong customer proposition

Proven track record

- ✓ £41 billion of AUA
- ✓ 16,000 active schemes
- ✓ 1.9 million members
- ✓ 23% market share[7]
- ✓ Established book indexed towards high value sectors
- ✓ Full relationship management of schemes



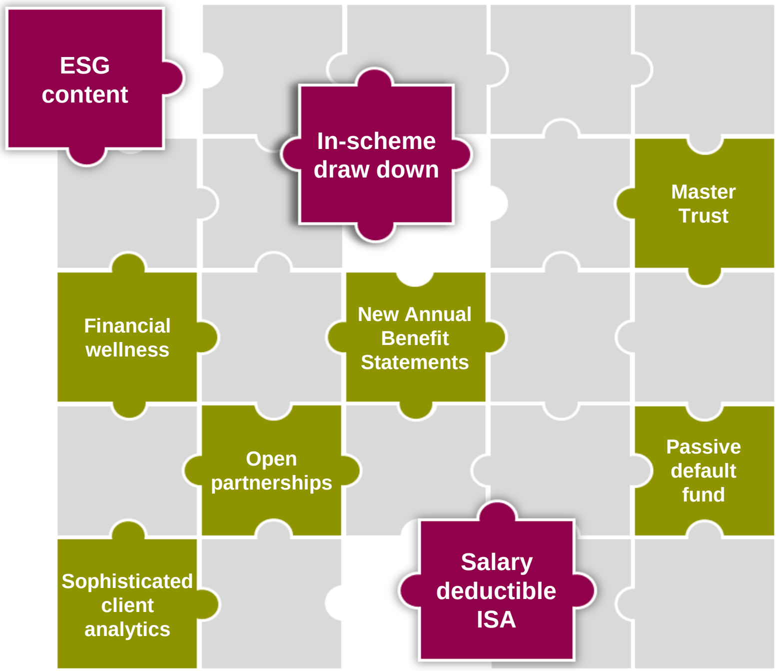
We will grow through

1. Retaining our existing schemes
2. New members joining existing schemes
3. Increasing contributions of all members
4. Winning new schemes

See Appendix III for footnotes

We will deliver workplace growth through…

Building out the proposition



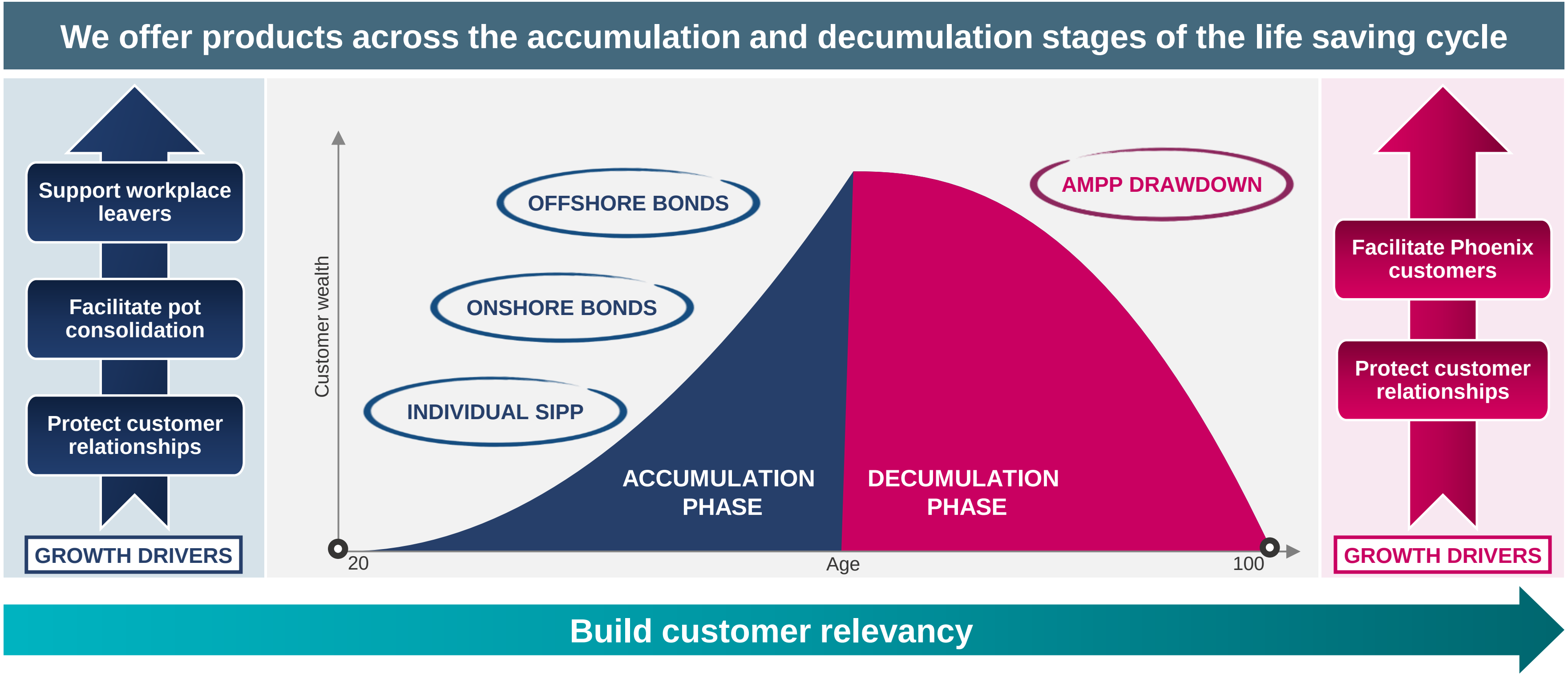
Being a trusted guide to the customer

Great service	Relevant
Value for money	Easy to deal with

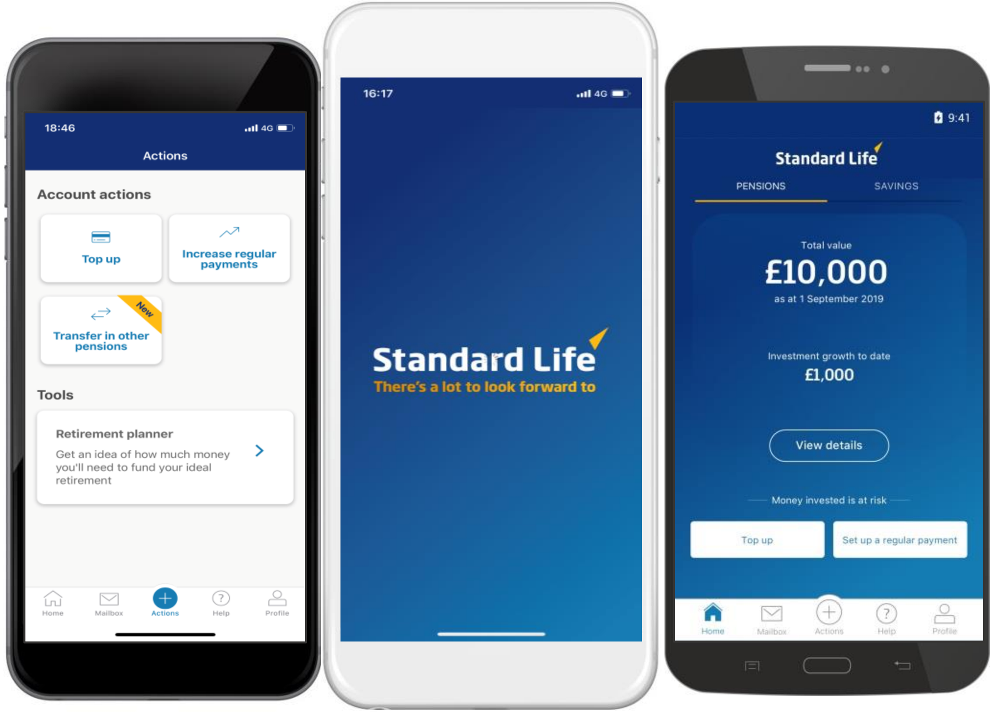
Transforming the platform

Digital	Lean and agile
Flexible pricing	Single open architecture

Retail pensions – our aim is to help customers at all stages of their lifetime



Customers are moving towards digital first



- Guided journeys to help customers plan targets, save more and move into drawdown
- Top-up and pension consolidation functionality generating c. £500 million gross flows YTD
- Fingerprint and face ID biometric login
- Secure 2-way mailbox with photo attachment functionality
- Average app users log in 8 times per month
- App Store rating of 4.6 ★★★★★

Wrap SIPP is delivered through our important Strategic Partnership

Wrap SIPP is a platform product

- Strong brand
- Sold on Standard Life Aberdeen's platform
- Lower margin but higher volume
- Low acquisition costs

Advisor relationships

Individually managed accounts

Digital enhancements

Drivers of growth

Client Service Proposition Agreement

Responsibilities	SLA	Phoenix
Sales	✓	✗
Advisor relationships	✓	✗
Platform charges	✓	✗
Investment fees	✓	✗
Administration	✗	✓
Insurance wrapper	✗	✓
Product charges	✗	✓

The Strategic Partnership in practice

Standard Life Aberdeen

PHOENIX GROUP

SunLife - Drive value by building a stand-out over 50s financial services brand

SunLife

GUARANTEED OVER 50 PLAN

Over 50s Home Insurance

The Over 55 EQUITY RELEASE SERVICE

- 61% market share in the over 50s market(8)
- c. 950,000 policies

Primary strategic aims

Protect and grow core protection business	**Build** financial services retailing capability	**Build** over 50s proposition
• Accelerate new business growth • Maximise customer value	• Enhance direct marketing capability • Increase customer access and engagement	• Expand into funeral care market and grow ERM distribution • Develop over 50s general insurance proposition

SUNLIFE'S CAPABILITIES WILL BE LEVERAGED ACROSS THE GROUP

See Appendix III for footnotes

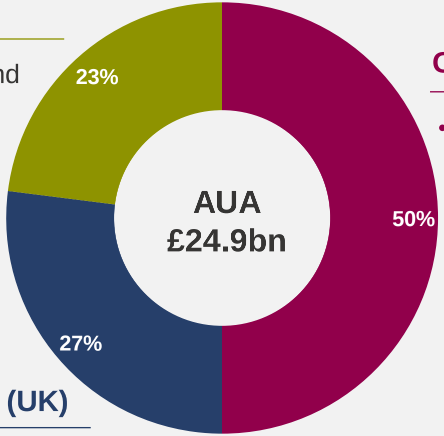
The European business focuses on maximising value

Our European business has three segments

at 30 June 2019

IRELAND

- Unit linked investment pre and post retirement proposition focused on ASI solutions



GERMANY

- Unit linked life assurance ASI centred investment propositions

INTERNATIONAL BOND (UK)

- Unit linked international bonds
- Growth via Strategic Partnership

Key messages

- We continue to focus on retaining customers and growing profitable unit linked business
- Slow growing unit linked market in Germany
- Growth opportunities are largest in the International Bond business
- Business provides optionality for European consolidation

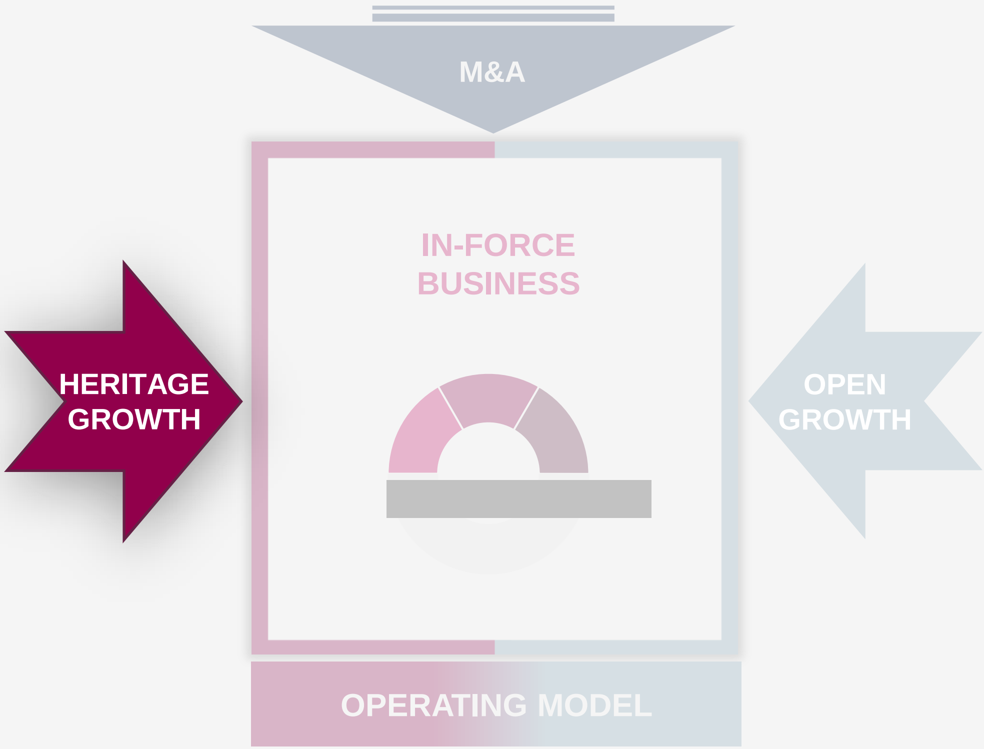
Key messages

- Open business growth delivers incremental cash generation, enhancing dividend sustainability
- £205 million of incremental long-term cash generation from new business by end Q319
- Workplace is the engine of the Open business
- Building customer relevance supports growth
- European business is value accretive and brings strategic optionality

GROWTH OF THE HERITAGE BUSINESS

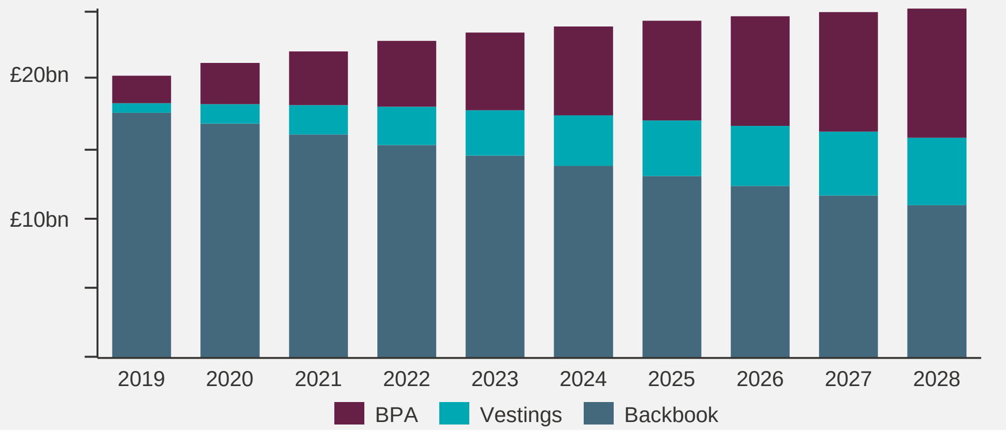
Simon True

Group Corporate Development Director and Group Chief Actuary



Our Heritage business will grow through new annuity business

Our annuity book will continue to grow



Assumptions

- £750 million vesting annuities per annum
- £1 billion BPA per annum

Key messages

Annuity business is value accretive; providing long-term cash flows to support future dividends

Growth through BPA is incremental to our cash generation targets

£235 million of incremental long-term cash generation from BPA transacted YTD

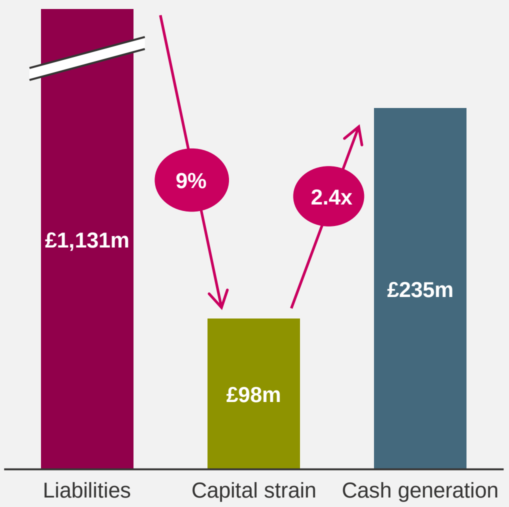
Cash generation guidance assumes £750 million of vesting annuities per annum

BPA offers attractive returns and extends our long-term cash generation

Phoenix's approach to BPA is:

Selective	Focus on value accretion not volume
Proportionate	Allocation of c. £100 million of surplus capital in 2019
Funded from own resources	Capital strain funded by surplus capital

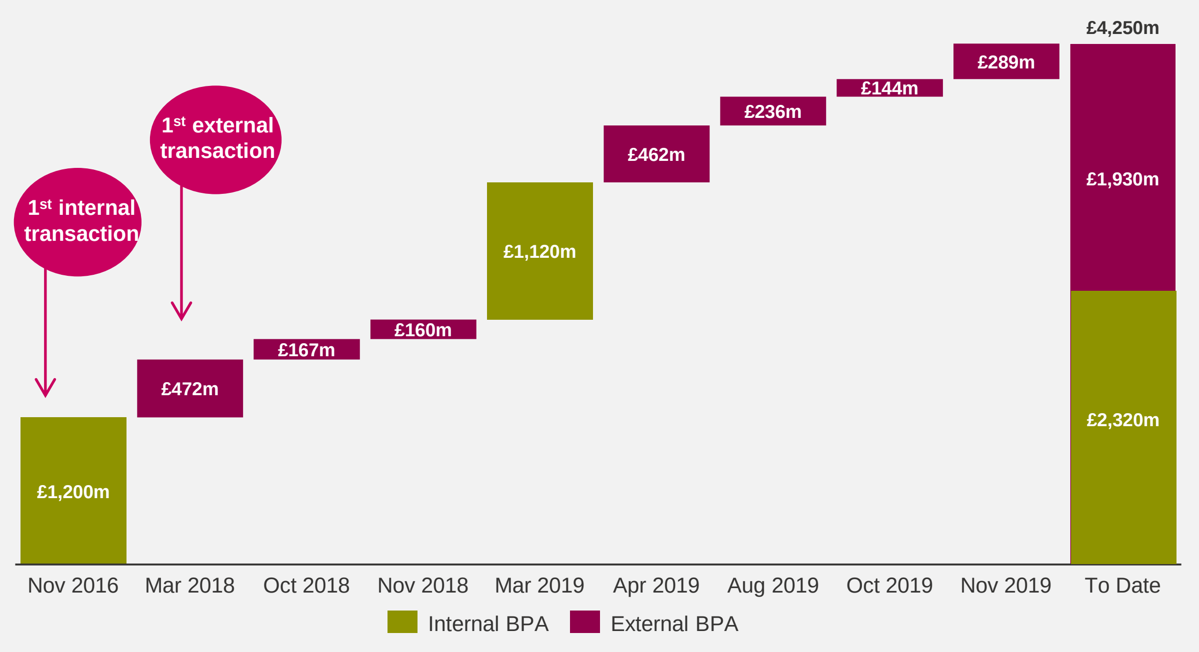
2019 YTD BPA deal economics



- IRR on each BPA transaction must exceed hurdle rate of return
- "Capital strain" includes the capital management policy
- Group reimburses Life Co for "capital strain"
- Average payback period (excluding capital strain) of 6-7 years

Our BPA strategy has delivered £485 million of long-term cash generation

We have capitalised on both internal and external opportunities



External BPA statistics

	Liabilities	Capital strain	Long-term cash generation
YTD 2019	£1,131m	£98m	£235m
FY 2018	£799m	£100m	£250m
	£1,930m	**£198m**	**£485m**

2019 BPA is incremental to our £12 billion cash generation guidance

There are a range of factors which enable us to deliver value accretive deals

2019	Invited to price	Deals we priced	Deals we won
	£28bn | 56 deals	£5.9bn | 23 deals	£1.1bn | 4 deals

We priced less than 50% of deals

We won 1 deal in every 6 we priced YTD

Criteria for pricing

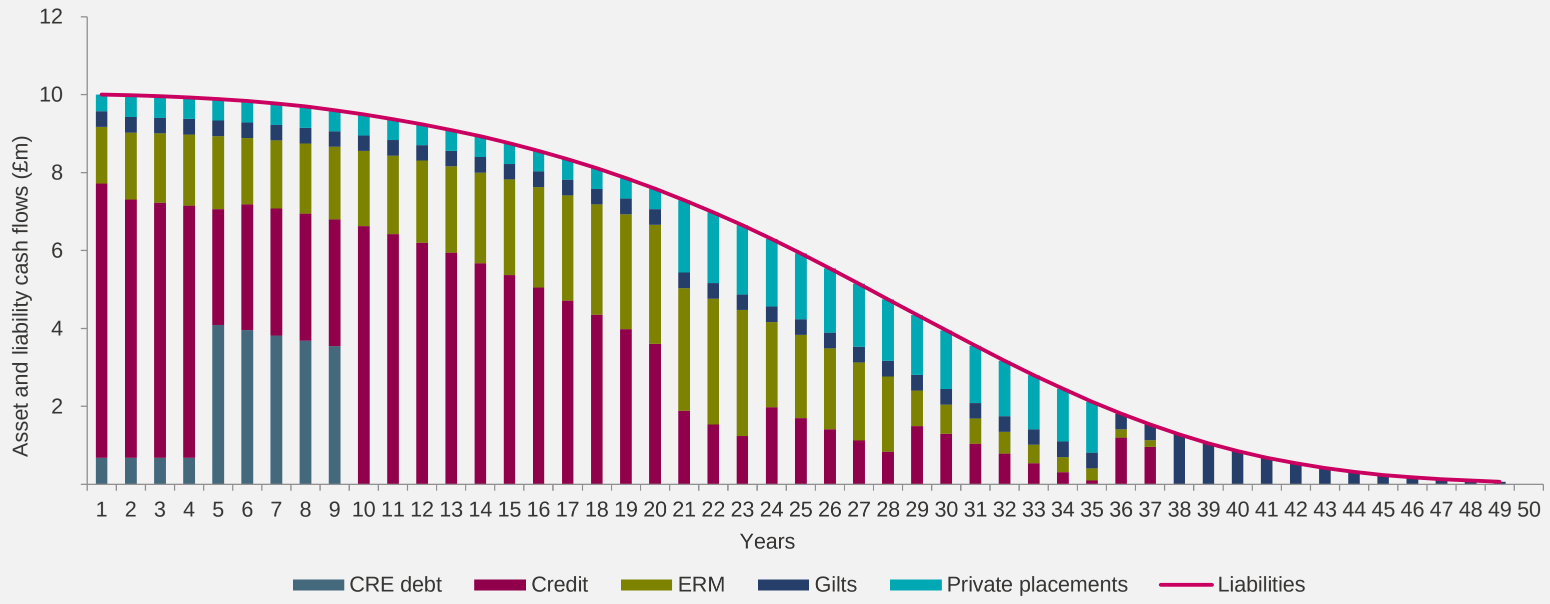
- Size
- Immediate annuities
- Capacity
- Demographic
- Likelihood of transaction

Phoenix's competitive advantages

- ✓ Financial strength and resilience
- ✓ Ability to source appropriate assets
- ✓ Management of longevity risk with >90% risk reinsured
- ✓ Pragmatic solutions-focused approach
- ✓ Specialist, agile team leveraging strong relationships
- ✓ Scalable administration platform

Sourcing assets quickly which match liability duration is the key criteria for success in the BPA market

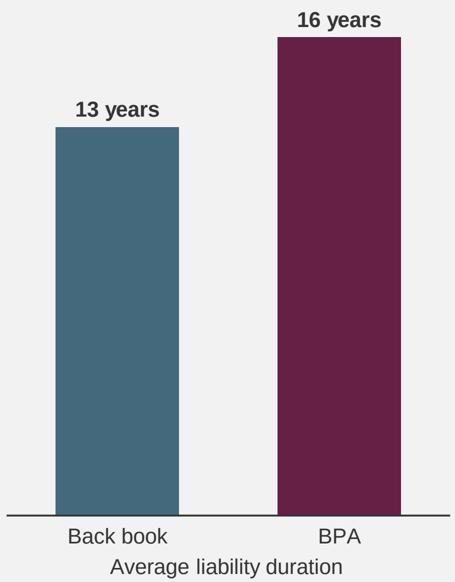
Illustrative asset and liability matching profile



Our Strategic Asset Allocation (“SAA”) for annuities has three key priorities

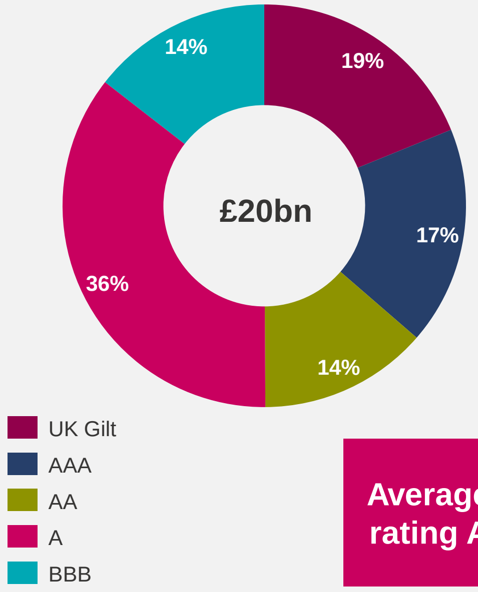
1 Appropriate duration

at 30 September 2019



2 Credit discipline

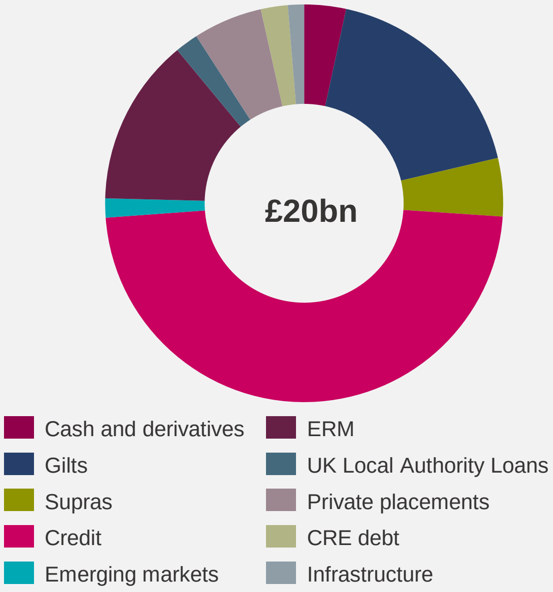
at 30 September 2019



Average rating A

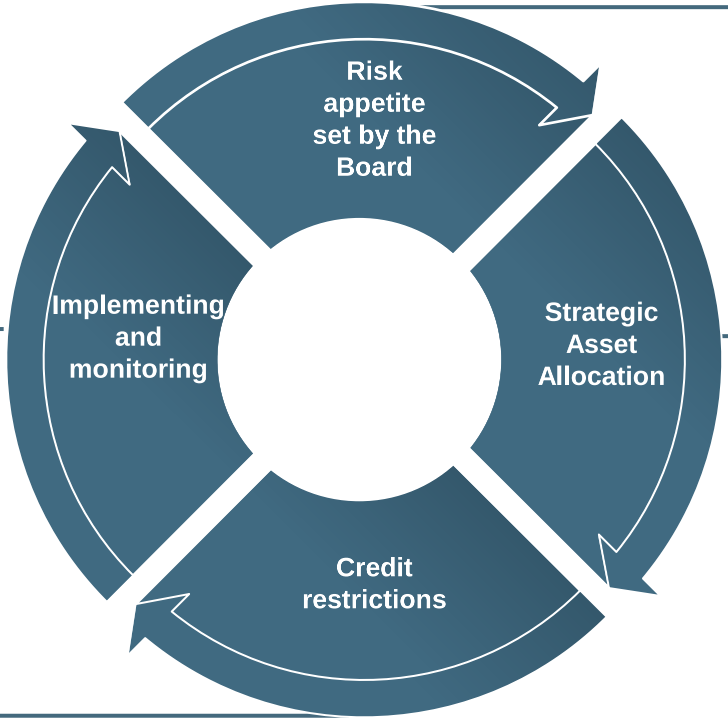
3 Diversification

at 30 September 2019



Strong controls and governance ensure we manage risk effectively

- Asset selection
- Credit assessment / due diligence
- Approval through governance
- Origination through direct sourcing or third party mandates
- Regular monitoring against appetite



- Quantitative risk appetite
- Capital and liquidity requirements
- Counterparty risk framework
- Exposure analysis

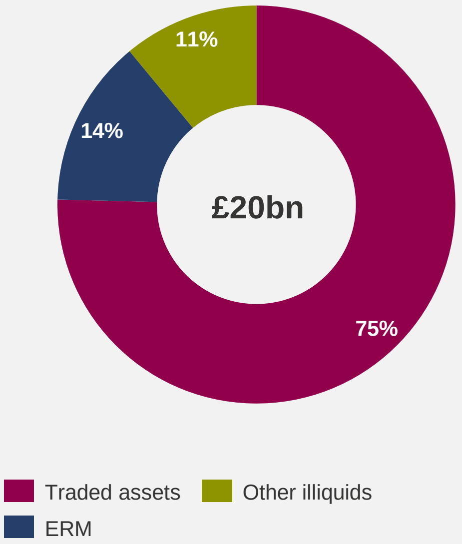
- Allocation set by asset class and geography
- Based on risk budget and risk / return objectives
- Informed by risk appetite

- Development of portfolio and aggregate credit restrictions
- Limits set by issuer, rating, country and sector
- Additional restrictions by asset e.g. LTV and covenants

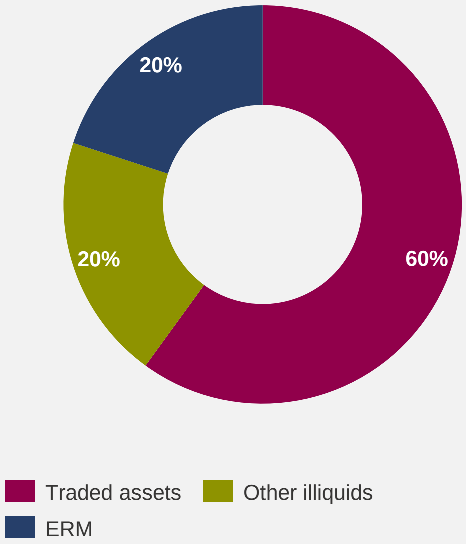
"Illiquid" assets are an integral, but proportionate part of our annuity SAA

Annuity SAA

at 30 September 2019



Target annuity SAA



Key messages

- Long dated assets "match" our long dated annuity liabilities
- We are rewarded for illiquidity by higher returns
- Internal model fully reflects the risk-adjusted returns
- "Buy and maintain" strategy avoids reinvestment risk

Phoenix's approach to origination is bespoke and disciplined

Sourcing illiquid assets

Direct sourcing	Third party mandates
60+ direct relationships with issuers, banks, brokers, consultants and advisors	Leverage expertise, market access, investment risk and rating analysis
Led by Phoenix Group Capital	**Awarded by Phoenix Investment Office**

Supported by strategic relationship with ASI

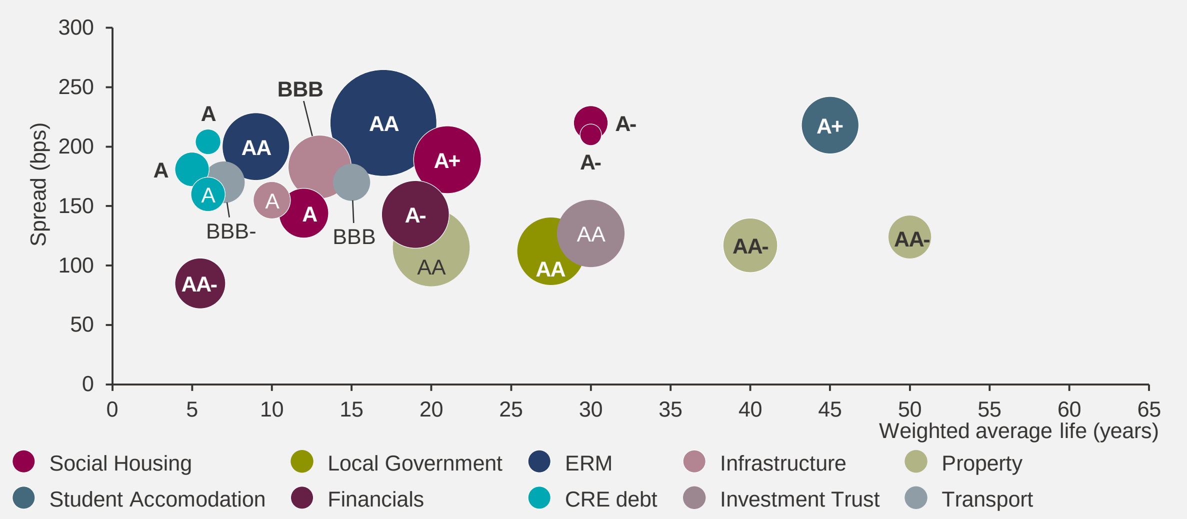
TENURE | **CREDIT** | **DIVERSIFIED**

Phoenix's competitive advantages

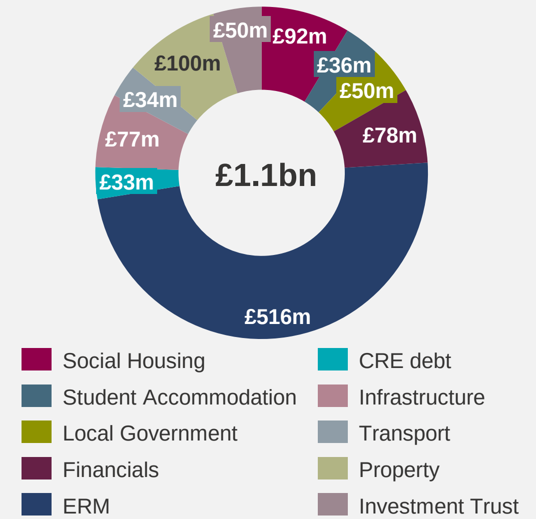
- ✓ We are sourcing assets suitable for both our back-book and new business
- ✓ Average deal size is small, making us attractive to different partners in niche markets
- ✓ We are happy to invest time to originate bespoke bilateral trades
- ✓ We prioritise credit quality over yield pick up
- ✓ Our targets are realistic – we have time to be selective

2019 origination delivers diversified assets of appropriate tenor and credit quality

Origination focused on longer maturities at attractive spreads



Diversified portfolio



Key statistics:	**£1.1 billion originated YTD**	**Average deal size of £33 million**	**Average credit rating of A+**	**Weighted average life of 19 years**	**£200 million ESG investment**

We use an independent and robust process to determine the credit rating of our illiquid assets

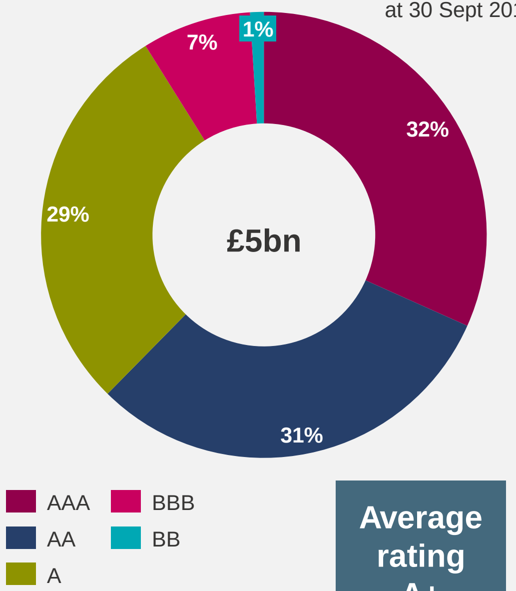
Internal Credit Rating ("ICR") process for non-ERM illiquids

Annual Cycle	3rd party asset manager	Phoenix
Internal Credit Rating framework	Draft and approve asset manager framework	Approve framework of asset manager and set / approve Phoenix ICR framework
Individual asset rating assigned	Assign credit rating in line with framework on origination	Approval of rating by ICR Committee with Investment Management Committee oversight
Monitoring and reporting	Quarterly review of credit rating and asset risk Watchlist for assets at risk of default and / or downgrade	Monthly 'watchlist' reporting of assets at risk of default and / or downgrade reviewed by investment and risk committees

External Audit provides oversight of framework and asset valuation

Illiquid asset credit quality

at 30 Sept 2019



Average rating A+

Our £5 billion illiquid asset portfolio is well diversified

Equity Release Mortgages £2.7 billion

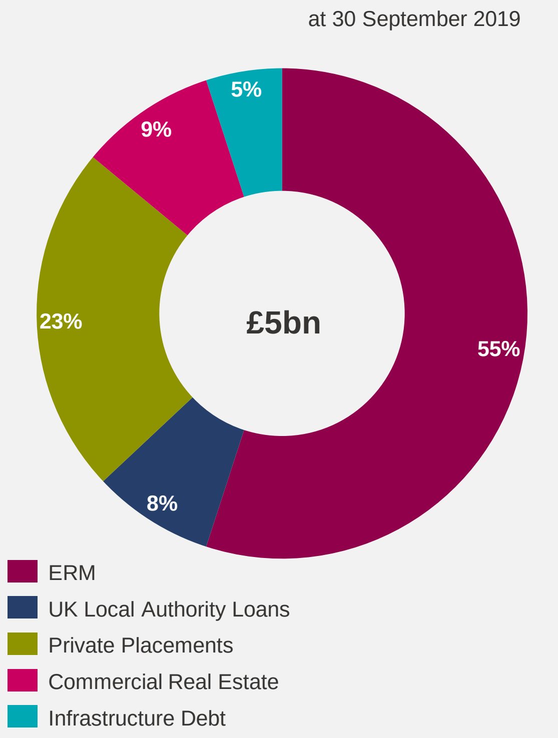
- Broad regional spread and average LTV of 33%
- Average AA credit rating

Private Placements £1.1 billion

- Diverse portfolio of investment grade corporate loans and bonds
- 72% of exposures are secured on assets

Commercial Real Estate £0.5 billion

- Structured with robust covenant protection
- c. 75% of portfolio LTV ≤ 50%



UK Local Authority Loans £0.4 billion

- Unsecured but with implicit support of UK Government
- Average AA credit rating
- Loans across 24 different local authorities with exposures ranging from £0.5 million - £85 million

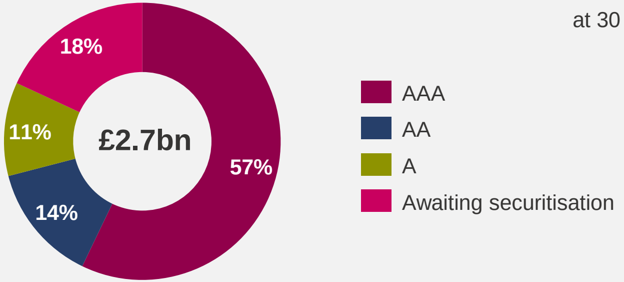
Infrastructure Debt £0.3 billion

- Secured on cash flows from long-term contracts with highly rated counterparties
- 70% of portfolio backed by UK Government (directly or indirectly)

Our Equity Release Mortgage portfolio is highly resilient and well diversified

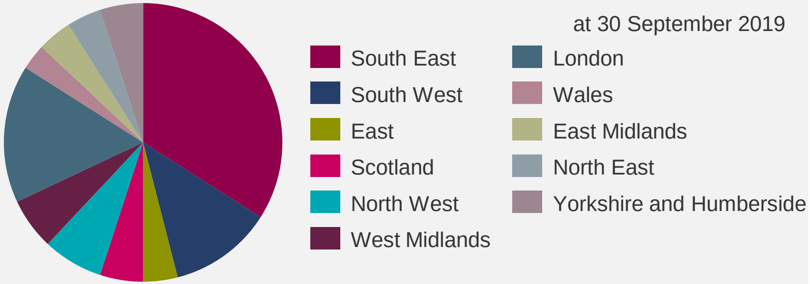
Credit rating determined through securitisation

at 30 September 2019



Regional distribution

at 30 September 2019



Key portfolio statistics

	Average LTV	Average age	Average time to redemption
Current portfolio	33%	77 years	12 years
2019 origination	28%	70 years	16 years

We have strong security over our £2 billion portfolio of other illiquid assets

Commercial Real Estate £0.5 billion

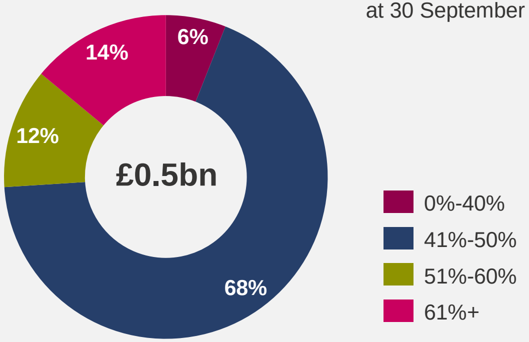
- First-ranking security over the underlying property, transaction bank accounts and other borrower assets
- Structured with robust covenant protection, typically a combination of loan-to-value and interest coverage ratio covenants

Private Placements £1.1 billion

- 72% secured on a variety of assets
- Diversified portfolio across 33 exposures (counterparties)
- Average loan size of £34 million
- Average credit rating of A

Current LTV levels of CRE portfolio

at 30 September 2019



5 largest Private Placements

1	£140m	Rated A	Secured on portfolio of healthcare facilities
2	£109m	Rated A	Social housing provider (secured)
3	£97m	Rated A	Secured on a portfolio of city centre student accommodation across the Midlands
4	£83m	Rated A	Secured loan to a major UK utility company
5	£71m	Rated AA	Unsecured loan to support sustainable development for a central London local authority

Investing in assets brings a positive social impact

City growth & regeneration	Social housing	Equity release	Clean energy	Infrastructure
c. £100 million funding to progress investment in public services, transport and urban infrastructure	c. £100 million investment to help fund the development of more social and affordable homes	c. £1.1 billion ERM origination, helping over 12,000 households unlock equity in their homes	c. £135 million investment across solar, wind, hydro electric and smart meter technologies	c. £150 million investment in new rail rolling stock to improve the journeys of both commuters and leisure travellers





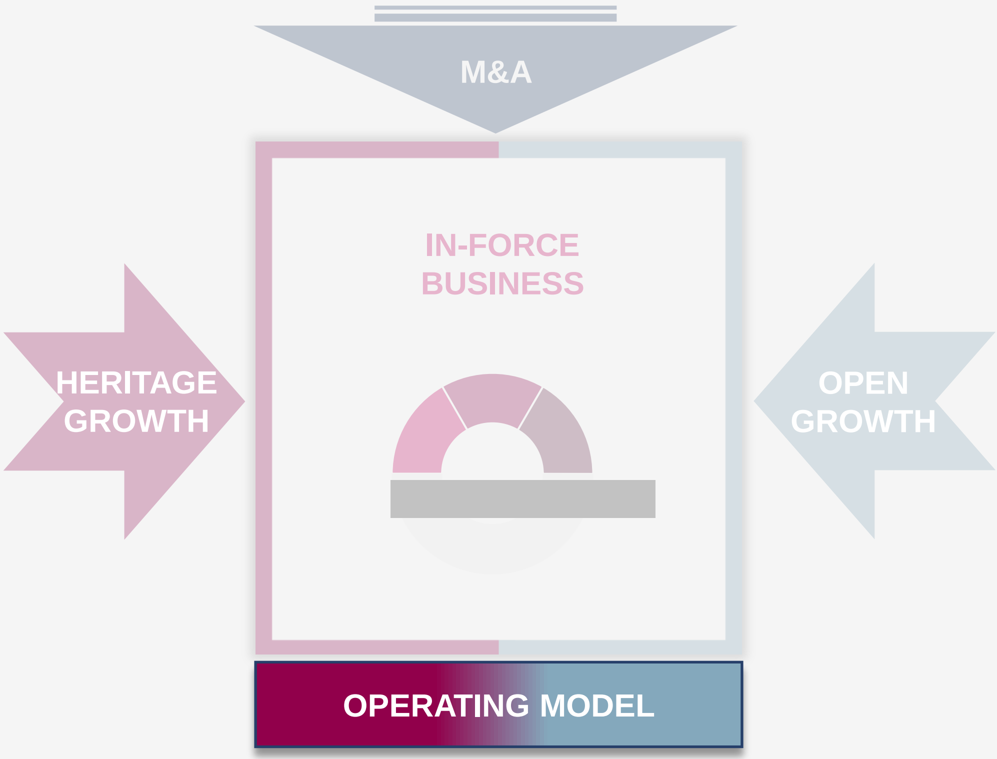
Key messages

- Heritage business growth delivers incremental cash generation, enhancing dividend sustainability
- £235 million of incremental long-term cash generation from YTD BPA
- Sourcing assets that match liability duration is the key criteria for value accretive BPA
- Illiquid assets are an integral but proportionate part of our strategic asset allocation for annuities
- We have a well diversified, illiquid asset portfolio with an average credit rating of A+

TRANSFORMATION OF THE OPERATING MODEL

Tony Kassimiotis

Group Chief Operating Officer



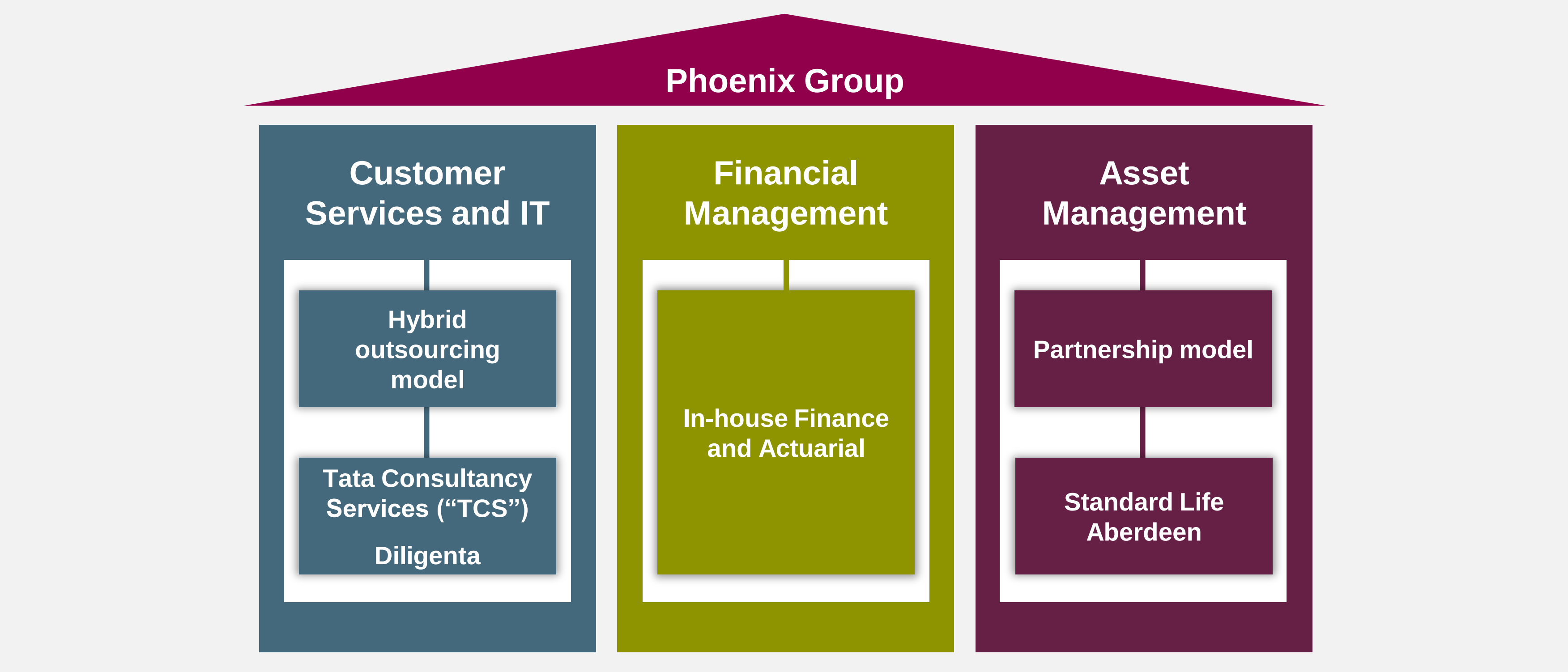
Our industry is facing a wide range of external challenges

Phoenix is also bringing together two distinct operating models

	"Phoenix" model	"Standard Life Assurance" model
Heritage business	✓	✓
Open business	✗	✓
M&A ready	✓	✗
Outsourcers	✓	✗
Digital	✓	✓

End state operating model

Our end state operating model leverages the strengths of our strategic partners



We have clear strategic aims for our Customer Services and IT operating model

Improve customer outcomes

- Improved customer interaction
- Enriched customer data driven journeys
- Consistent omni-channel experience
- Drive self-service through design and efficiency

Drive business growth

- Support agile deployment of new propositions and services
- Scalable "right-sized" operating model that is M&A ready
- Enhanced data-driven approach to customer analytics

Manage risk

- Rationalisation of systems
- Reduced exposure to technology risk
- Reduced execution risk for customers
- Rapid scalability, simplifying integration of new books

Underpinned by commercial sustainability

Strong contractual framework

Delivery of cost synergies

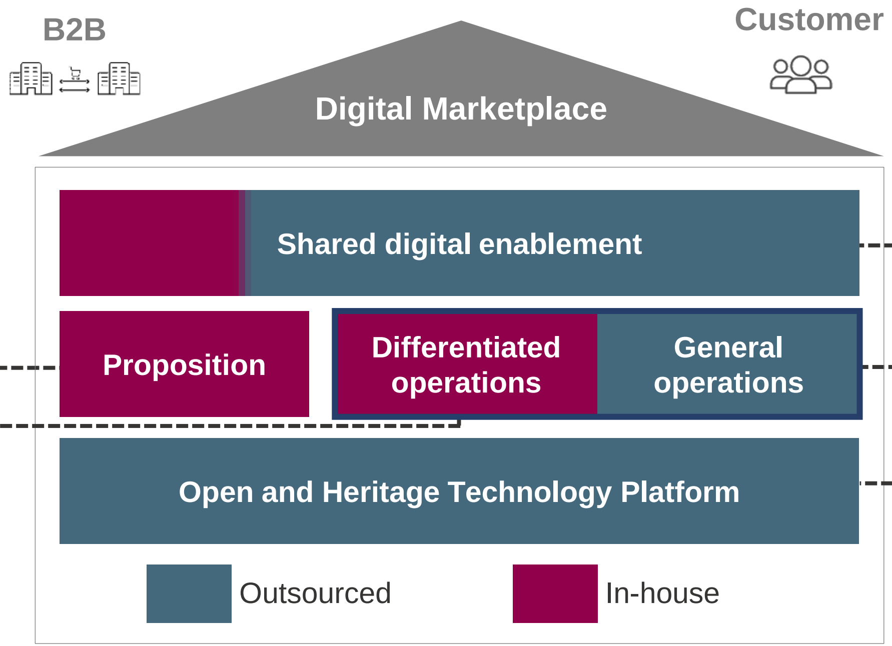
Certainty for future transformation activities

Expansion of automation and digital self service

Hybrid Customer Services and IT operating model brings enhanced capability and operational flexibility

Proposition design, products, pricing, investment solutions and governance are retained in-house

Hybrid operating model retains Standard Life Assurance strengths in-house



MyPhoenix and Standard Life Assurance digital access enabled by TCS platform

General customer services and operations will be delivered by Diligenta

TCS BaNCS provides a single, scalable market leading platform

Ingredient 1: Unique partnership and leading contractual framework

We were a founding partner of Diligenta…

Tata Consultancy Services Ltd

- 450,000 consultants
- 46 countries
- 18,000 UK employees

Subsidiary

Diligenta Ltd

- FCA regulated
- UK based

Partnership established in 2005

Phoenix Group

Founding partner

…which brings early adopter advantages

- ✓ Evergreen contracts
- ✓ Variable cost base with “per policy” fees
- ✓ M&A has delivered fee reductions
- ✓ Cost of regulatory change with Diligenta
- ✓ Benefit from all platform investments

Ingredient 2: The TCS BaNCS platform

TCS BaNCS Insurance

End-to-end administration of policies and customer data

First launched in 2001 and in operation in the UK since 2006

- ✓ No limits on type of product it can handle
- ✓ No limit on number of policies it can process
- ✓ No manual intervention in automated processing
- ✓ Currently configured for 1,200 UK Life and Pensions products
- ✓ +3,000 associates dedicated to TCS BaNCS development and implementation

UK

7 customers

17 million L&P policies

Globally

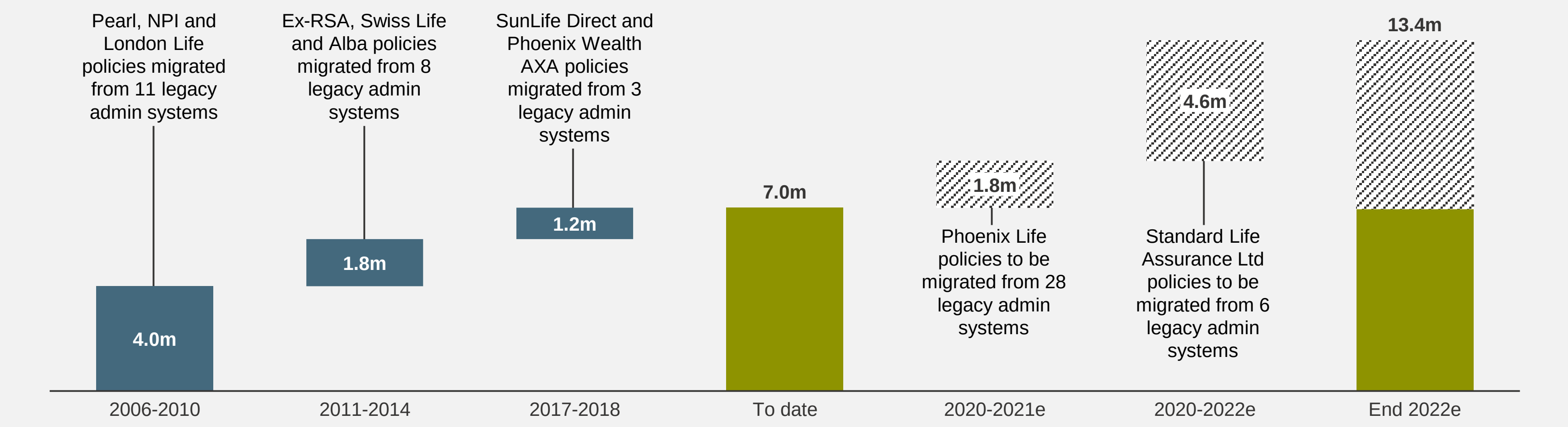
67 customers

30 million L&P policies

550 million P&C and health policies

Ingredient 3: Migration expertise at Phoenix and Diligenta

Phoenix's migration journey



Journey to date: → **15 migrations** → **7 million policies** → **22 legacy systems** → **13 years of experience**

Ingredient 4: Edinburgh Hub will support Open business development

What is the Edinburgh Hub?

TCS will establish a technology and operating services Hub in Edinburgh to build on strong innovation and deliver excellence in customer service

- Hub located in our Edinburgh Lothian Road office
- Hub consists of skilled experts from Standard Life Assurance and TCS
- Innovation lab within the Hub will be launched in 2020

How does it benefit the Open business?

- ✓ Combined expertise builds on strong innovation and customer service excellence
- ✓ Accelerates speed to market, and enables further digital and technology capabilities to be developed
- ✓ Innovation lab enables clients to experience future proposition enhancements
- ✓ Extended partnership drives our organic growth strategy and supports future acquisitions

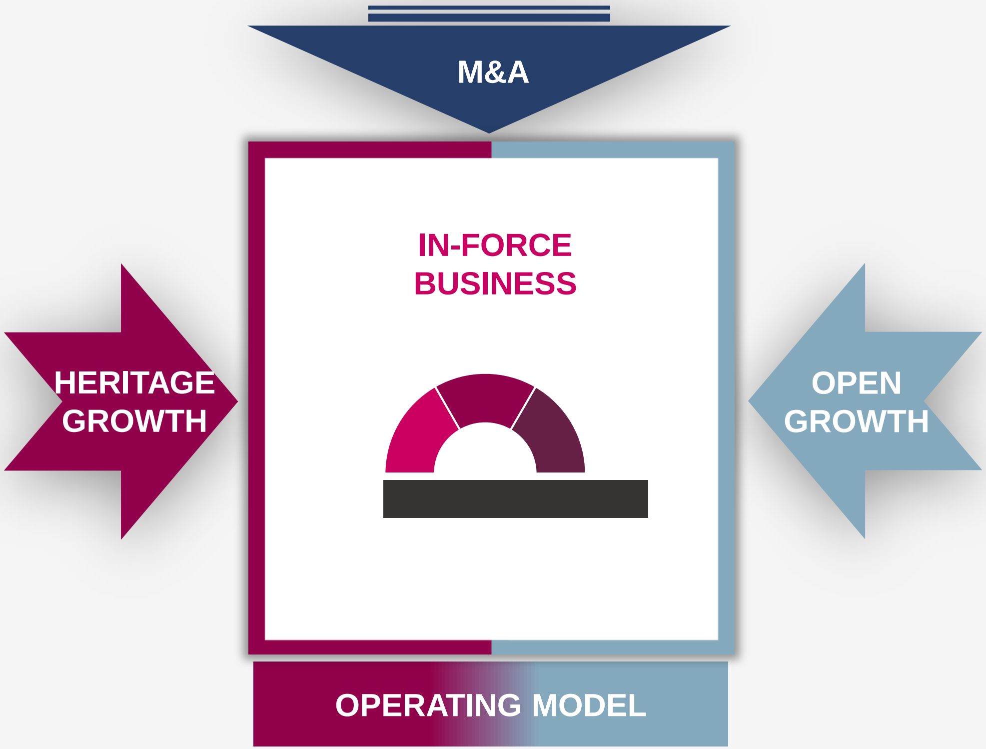
Key messages

- Phoenix's operating model leverages the strengths of our preferred strategic partners
- Policies will be administered from the TCS BaNCS platform and serviced by Diligenta
- TCS will develop Open business capabilities, delivered from a new Edinburgh Hub
- Hybrid operating model will retain Standard Life Assurance's strengths in-house
- Differentiated and scaleable model supports Phoenix's strategic objectives

SUSTAINABLE LONG-TERM CASH GENERATION

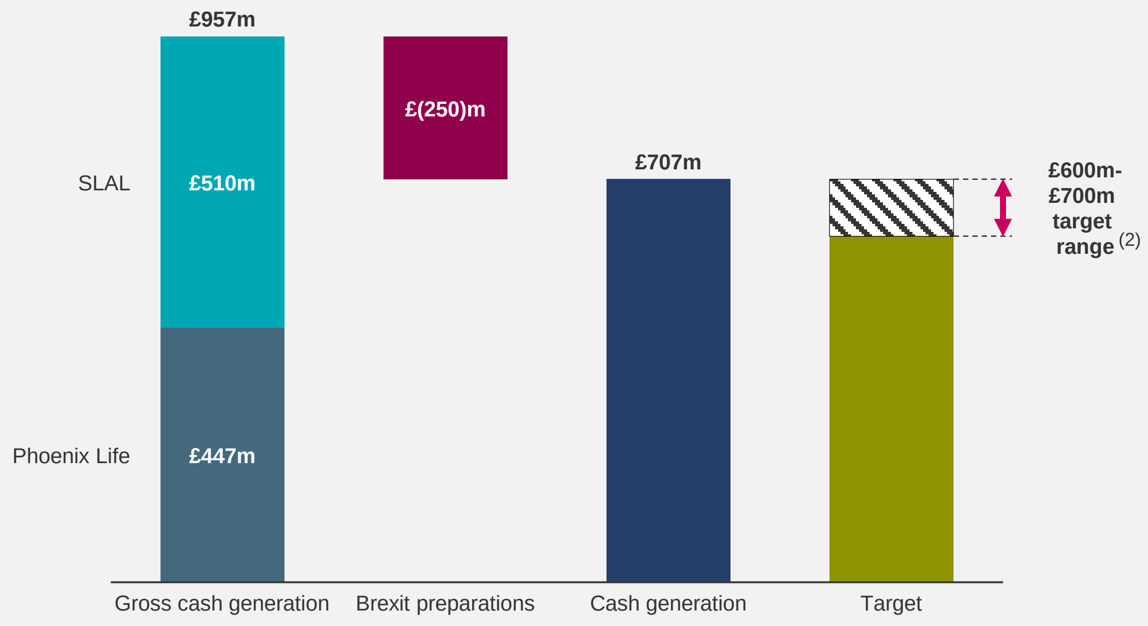
Rakesh Thakrar

Deputy Group Finance Director



Phoenix delivers £707 million cash generation in 2019, exceeding the upper end of the target range

2019 cash generation



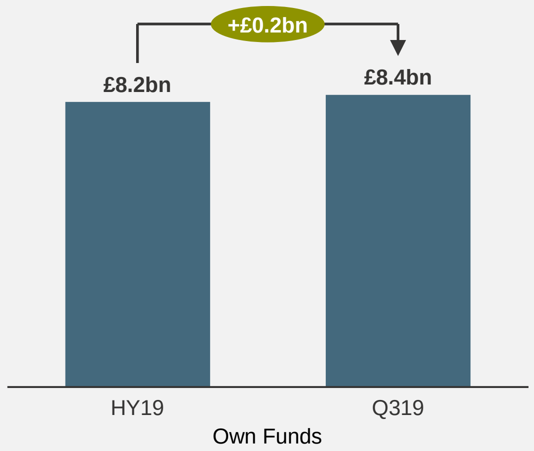
Key messages

- Cash generation exceeds upper end of target range
- Gross cash generation provides dividend cover of 2.8x
- £250 million Brexit preparations will emerge as future cash generation
- First remittance from SLAL following delivery of synergies and harmonisation of capital policy

See Appendix III for footnotes

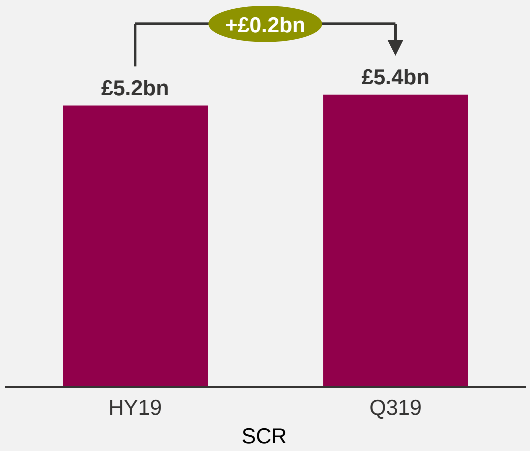
Solvency II surplus unchanged at £3.0 billion illustrating Phoenix’s resilience

Own funds increased by £0.2bn[(1),(9)]



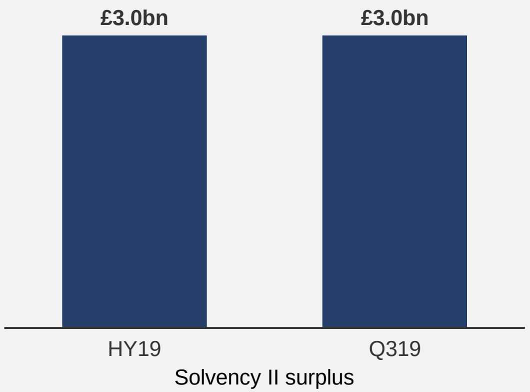
- Increase driven by:
  - Change in longevity assumptions
  - Fair value of interest rate hedges

SCR increased by £0.2bn[(1),(9)]



- Increase driven by:
  - Increase in interest rate risk capital

Solvency II surplus resilient[(1),(9)]



- Unchanged surplus demonstrates hedging in action
- Shareholder Capital Coverage Ratio[(1)] reduced from 160% to 156%

See Appendix III for footnotes

We have a three pillar approach to identifying available capital and cash

Capital

Target solvency ratio	140-180%
<140%	Rectification plan
>180%	Capital deployment

Flexibility to move within the range in line with risk appetite

Liquidity

Liquidity buffer	Minimum 12 months mandatory outflows

Group liquidity buffer also covers any hedge exposures and LifeCo stress buffer

Draw-down on £1.25 billion RCF integral to policy compliance

Leverage

Target leverage ratio	25-30%[10]

Supports investment grade rating from Fitch

Acceptable to be outside of range in medium term

See Appendix III for footnotes

And a framework for capital allocation that brings sustainability to cash generation

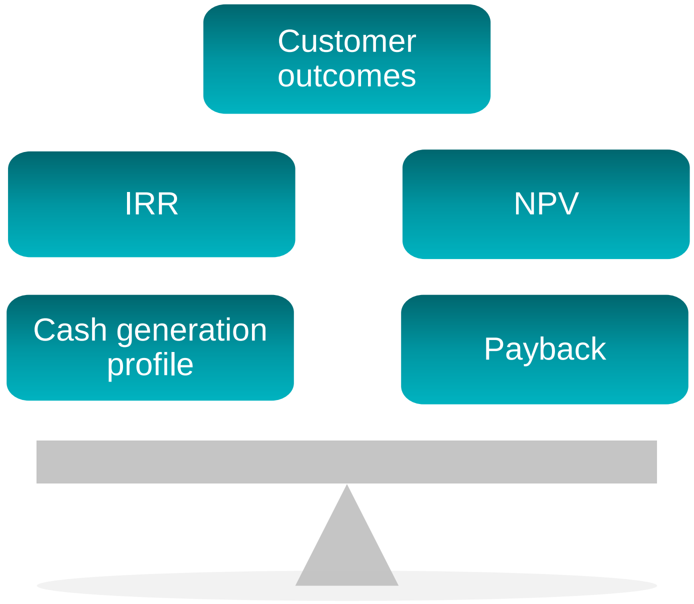
1. Maintain a strong solvency balance sheet and investment grade rating
2. Support delivery of management actions
3. Maintain a stable and sustainable dividend
4. Invest in value accretive growth opportunities (Open, Heritage and M&A)
5. Enhance returns to shareholders

We have a range of value accretive growth options and clear criteria for evaluating them

Growth options

Heritage business	• Capital allocation to vesting annuities and BPA • Investment in customer initatives
Open business	• Capital allocation to new business • Investment in the customer proposition
M&A	• Funding of deals that meet our acquisition criteria

Criteria are balanced to ensure success

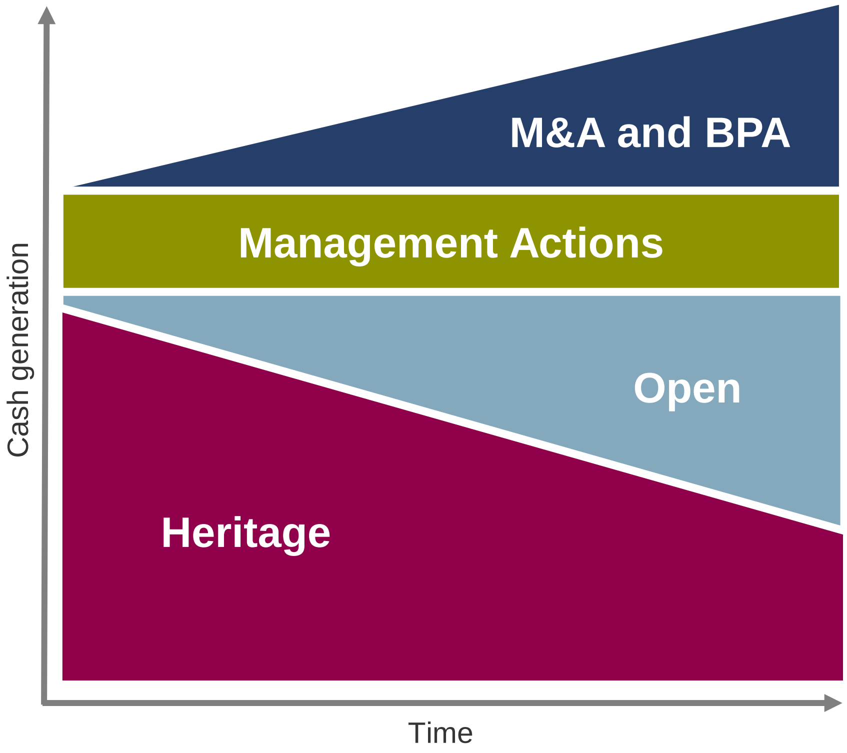


Cash generation targets reflect in-force business and exclude growth

2019 targets		Targets include	Growth opportunities
1 year target: **£600 million–£700 million(2)**	**Heritage business**	• £145 billion of in-force business • £750 million of vesting annuities per annum	• C. £100 million of surplus capital to be allocated to BPA per annum
5 year target: **£3.8 billion**	**Open business**	• £105 billion of in-force business • Acquisition and proposition costs of new business	• Capital light business requires de-minimus capital funding
Long-term guidance: **£12 billion**	**M&A**	• Nil	• £1 billion funding capacity in 2019 available without returning to equity

See Appendix III for footnotes

The “wedge” illustrates that growth opportunities bring sustainability to cash generation



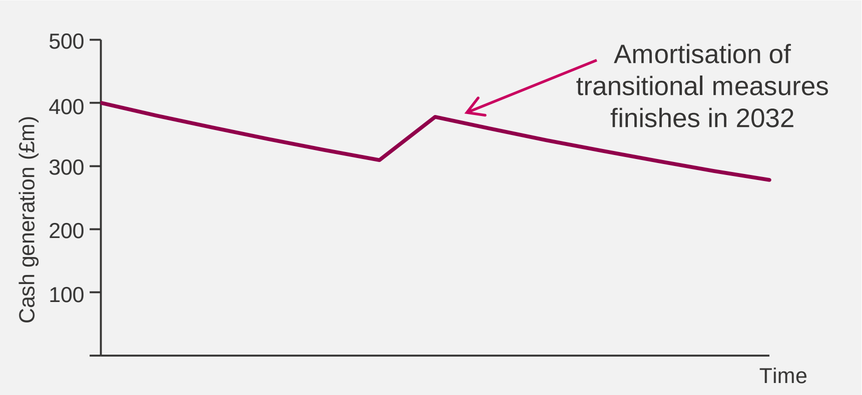
Key messages

- Phoenix used to be a pure Heritage consolidator
- We now have a growing Open business and BPA to generate incremental cash generation
- Growth brings sustainability to cash generation
- This means we can pay our current dividend in the long-term without further M&A

We know the shape of the Heritage "wedge" as run off is predictable

Illustrative Heritage run off profile

Expected Heritage run off profile

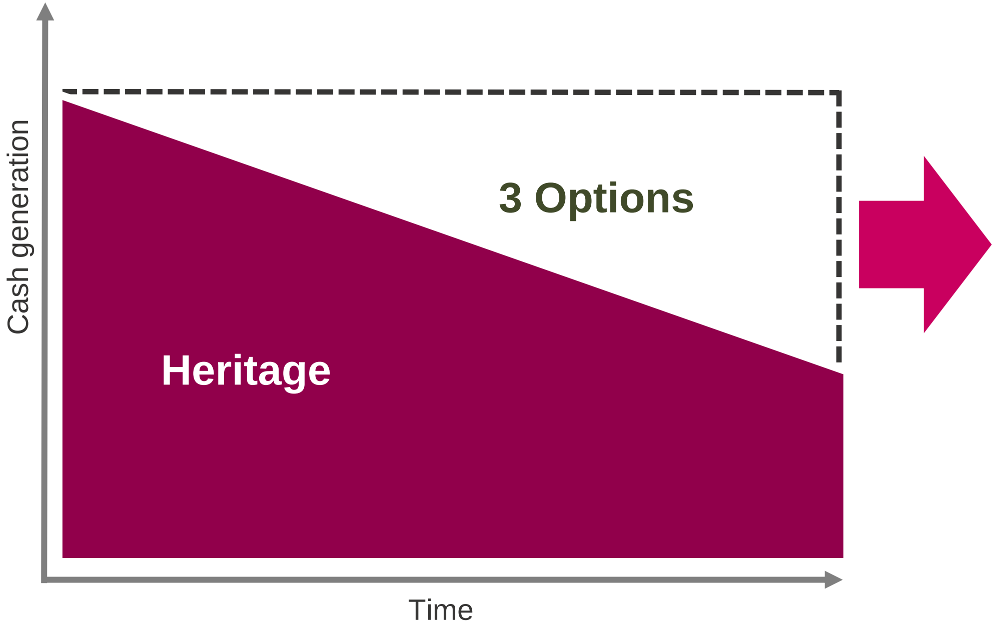


Assumptions

Heritage business organic cash generation runs off at 5-7% per annum

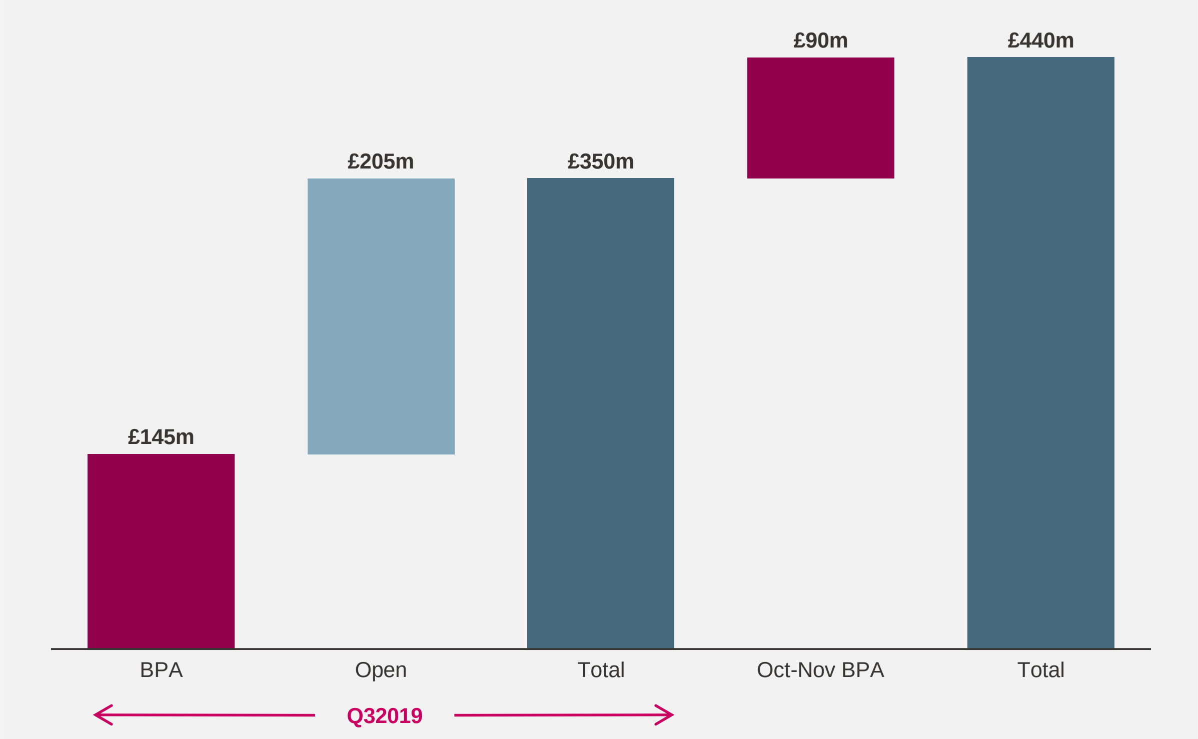
Kicker of c. £100 million when transitional measures run out in 2032

We have three options for offsetting the Heritage run off and delivering sustainable cash generation



Option 1: Grow Open business (see appendix 1)	Growth at 4% per annum on 2018 actuals would fully offset 5% per annum Heritage run off
Option 2: BPA (see appendix 2)	c. £100 million capital allocation to BPA per annum at 2019 deal economics would reduce Heritage run off by 3-4% per annum
Option 3: Reduce Heritage run off	Improving lapse rates from current assumptions will reduce in-force run off

£440 million long-term cash generation from 2019 growth is incremental to £12 billion guidance

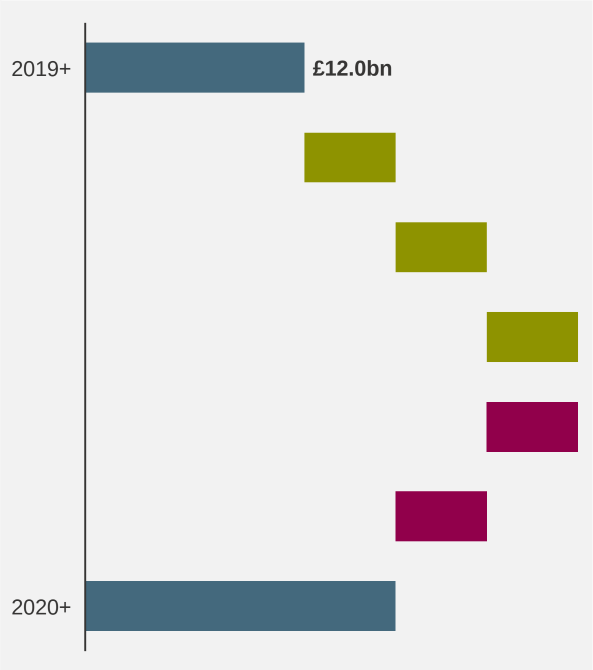


Key messages

1. Growth from both BPA and Open businesses
2. £440 million incremental cash generation
3. Capital strain funded from surplus capital
4. Incremental cash generation is 1.3x 2019 dividend

We will report our progress by rolling forward of our long-term guidance in March

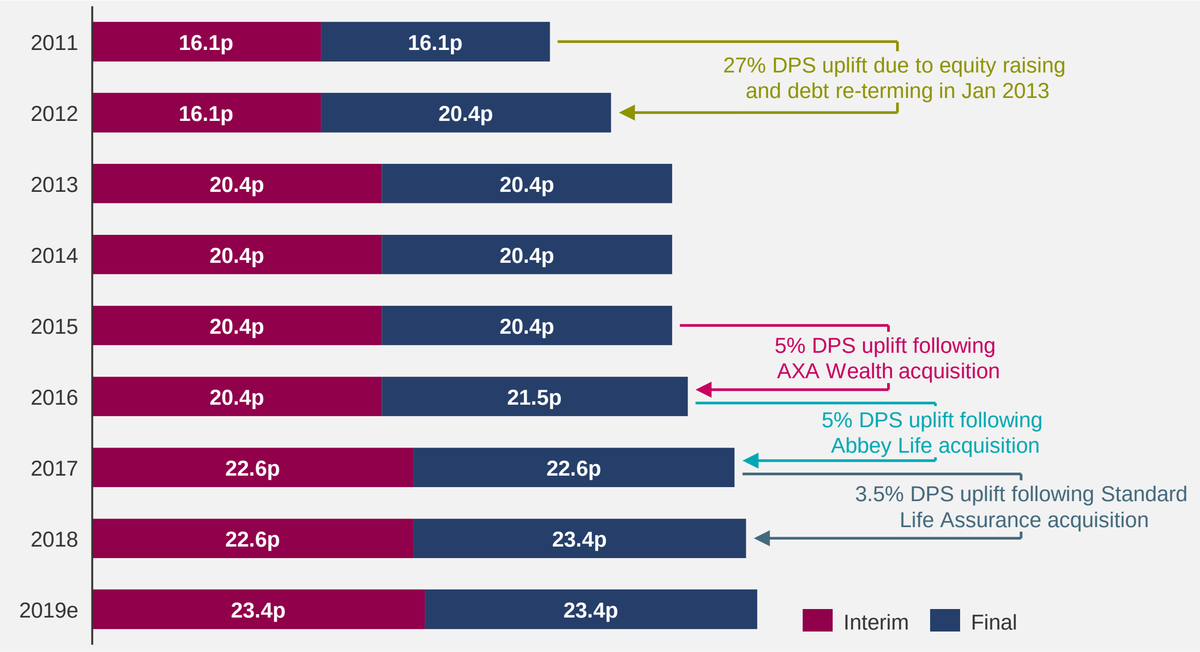
Long-term cash generation guidance



New business	£440 million of incremental long-term cash generation delivered during 2019
Assumption changes	Net impact of assumption changes made during FY19
Management actions	Delivery of additional management actions and synergies
Economics	Impact of market movements post transitional recalculation
2019 cash generation	£707 million cash generation delivered in 2019

Our dividend policy remains stable and sustainable

Dividend per share[11]



Key messages

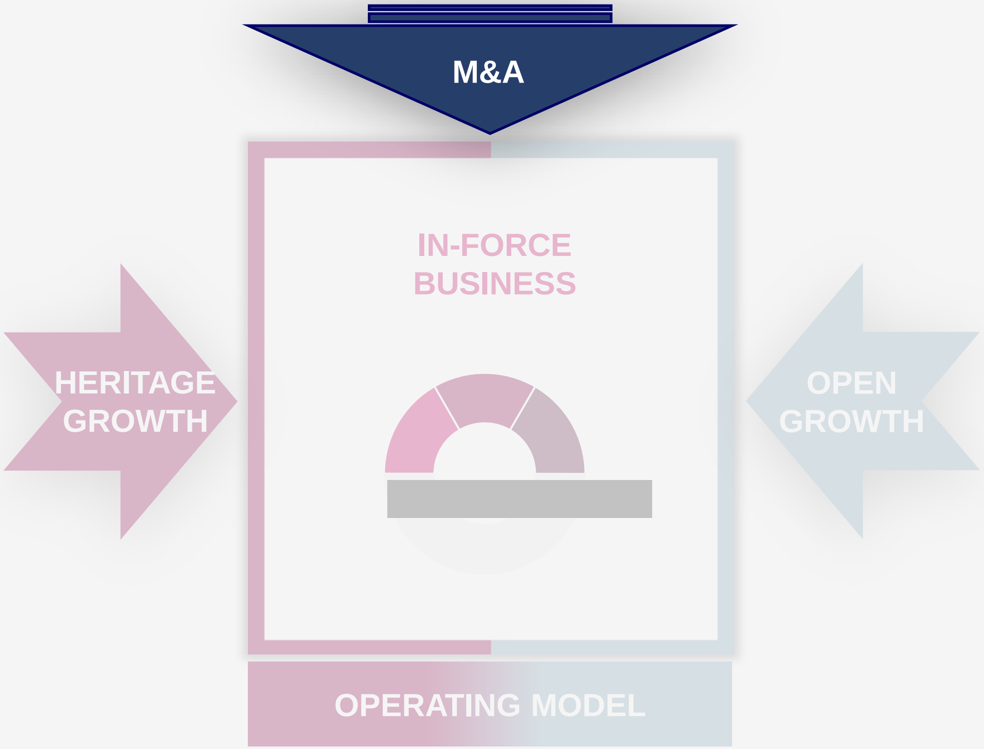
1. **Dividend increased 4 times in 7 years**
2. **Increases equivalent to 4.8% per annum over 8 years**
3. **Incremental cash generation from 2019 new business is 1.3x 2019 dividend**
4. **2019 cash generation dividend coverage ratio of 2x**

See Appendix III for footnotes

Key messages

- £707 million cash generation in 2019 exceeding target range
- Clear framework to allocate surplus capital
- Number of growth options to further enhance shareholder value and bring long-term sustainability to our cash flows
- Dividend policy remains stable and sustainable
- Year end reporting will demonstrate the impact of our growth story

CONSOLIDATION OF THE LIFE INSURANCE INDUSTRY

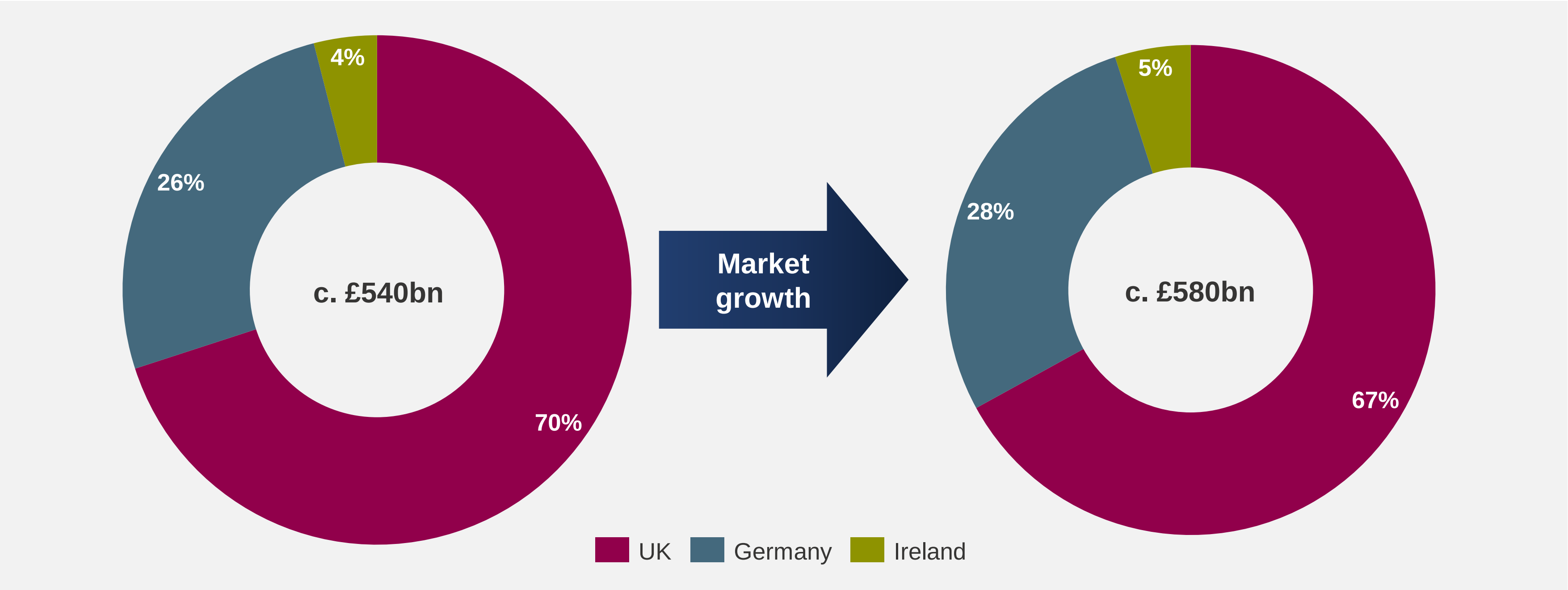


Clive Bannister

Group Chief Executive

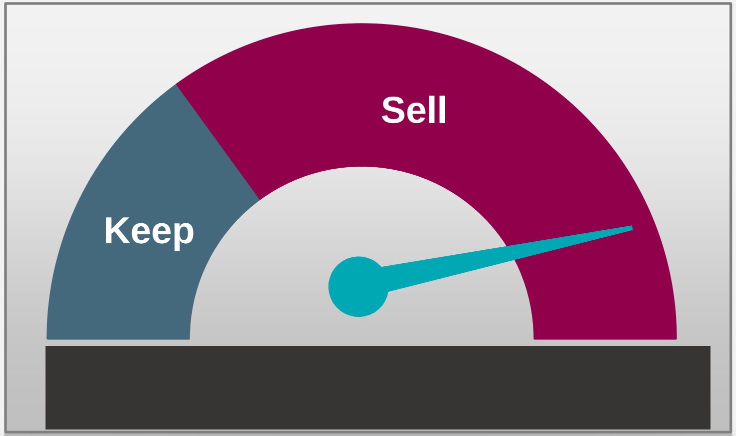
The accessible Heritage M&A market is growing

2016 market opportunity	2018 market opportunity



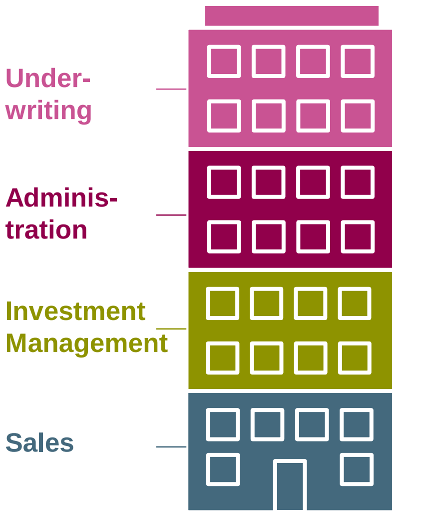
The drivers of consolidation in our industry are increasing

Drivers for keeping legacy books	Reasons for selling legacy books
Reliable cash generation	Trapped capital
Customer base cross selling	Legacy systems
Business model diversification	Regulatory change
	Cost inefficiencies
	Low interest rates

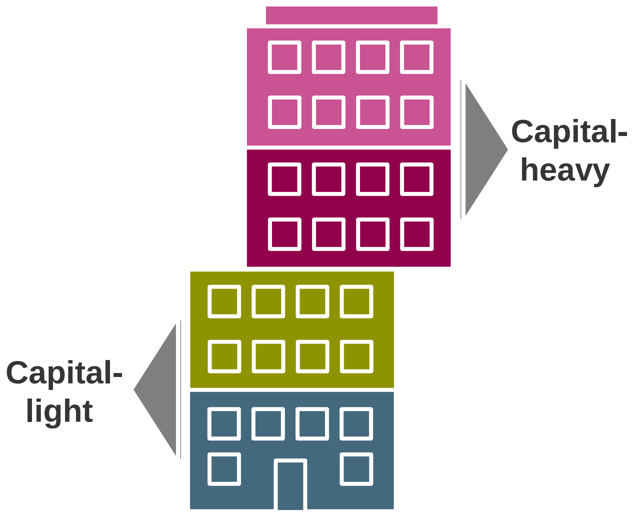


The insurance industry is bifurcating

Vertically integrated life insurance company



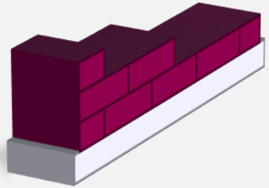
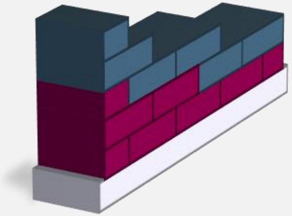
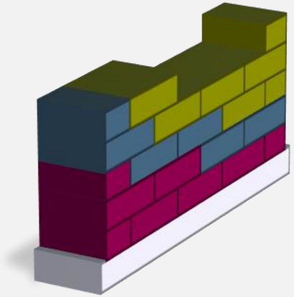
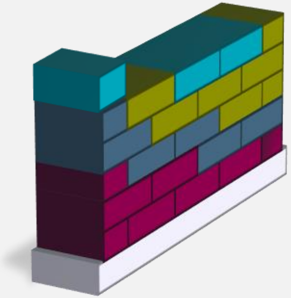
Changing corporate focus in life insurance sector



Standard Life Assurance transaction illustrates this

Increasing barriers to entry give Phoenix a competitive advantage

Barriers

Regulatory relationships	Optimised business model	M&A track record	Quality of acquirer
			

Phoenix's strengths

Regulatory relationships	Optimised business model	M&A track record	Quality of acquirer
Strong regulatory relationships	Scalable operating model	Successful integrations	Public listing
Financial resilience	Specialist skill set	Exceeding synergy targets	Insurance pedigree
Internal model	Diversified product portfolio	Speed of completion	Access to capital markets

We have clear acquisition criteria and are ready to transact

Acquisition criteria		Gating items	
Value accretive	IRR exceeds hurdle rate of return and a discount to SII Own Funds	**Management bandwidth**	Transition programme progressing to plan and on track to deliver synergy targets
Supports the dividend	Cash profile and solvency impact support dividend commitments	**Funding**	Committed funding to finance acquisition of c. £1 billion
Maintains investment grade rating	Fitch leverage remains within 25% - 30% target range	**Regulation**	Track record of remedying past conduct issues

Phoenix – Cash, Resilience and Growth

CASH

£12 billion
of future cash generation from in-force business

RESILIENCE

£3.0 billion (1)
Solvency II surplus

GROWTH

Heritage M&A
BPA
Open

Phoenix is en-route to becoming Europe's Leading Life Consolidator

See Appendix III for footnotes

Q&A

Appendices

I Option 1 – Grow the Open business

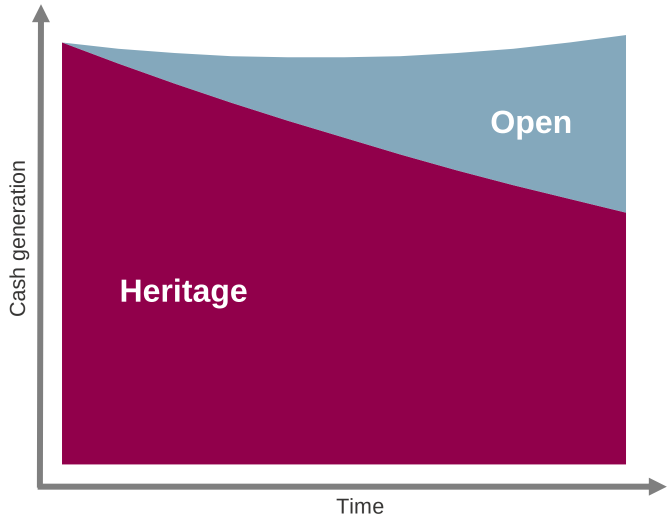
II Option 2 – BPA

III Footnotes

Appendix I: Option 1 - Grow the Open business

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 Open new business	2018		14	14	14	14	14	14	14	14	14	14
	2019			15	15	15	15	15	15	15	15	15
	2020				15	15	15	15	15	15	15	15
	2021					16	16	16	16	16	16	16
	2022						16	16	16	16	16	16
	2023							17	17	17	17	17
	2024								18	18	18	18
	2025									18	18	18
	2026										19	19
	2027											20
Open growth		**0**	**14**	**29**	**44**	**60**	**76**	**93**	**111**	**129**	**148**	**168**
Total		**400**	**394**	**390**	**387**	**386**	**386**	**387**	**390**	**394**	**400**	**407**

Heritage run off offset by Open growth



Key assumptions used in this hypothesis:

Heritage run off rate: 5%

Open growth rate: 4% from 2018 actuals

In-force Open business cash generation offsets acquisition costs

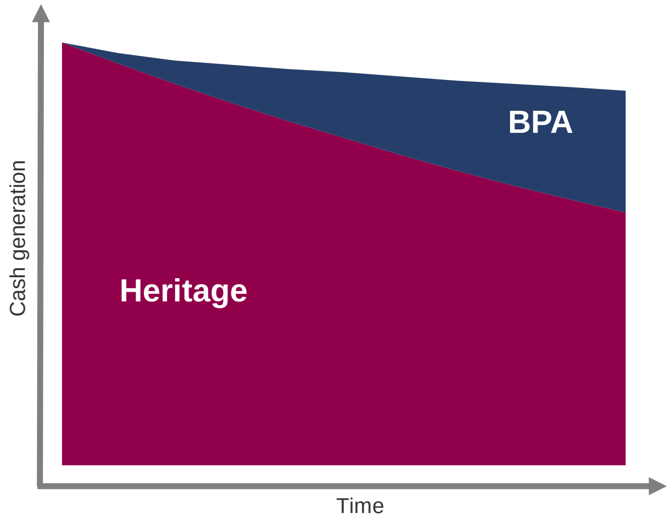
75% new business cash generation emerges over first 15 years

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

Appendix II: Option 2 - BPA

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 BPA	2018		10	12	14	13	13	12	11	11	10	9
	2019			10	12	14	13	13	12	11	11	10
	2020				10	12	14	13	13	12	11	11
	2021					10	12	14	13	13	12	11
	2022						10	12	14	13	13	12
	2023							10	12	14	13	13
	2024								10	12	14	13
	2025									10	12	14
	2026										10	12
	2027											10
BPA growth			10	22	36	49	62	74	85	96	106	115
Total		**400**	**390**	**383**	**379**	**375**	**372**	**368**	**364**	**361**	**358**	**354**

BPA reduces Heritage run off by 3-4%



Key assumptions used in this hypothesis:

Heritage run off rate: 5%

£240m of incremental cash generation from BPA per annum

70% of cash generation emerges over first 15 years

Capital strain funded by Group

(1) Model is illustrative only

Appendix III: Footnotes

(1) The Solvency II capital position is an estimated position and reflects a regulatory approved recalculation of transitionals as at 30 September 2019. The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and the PGL Pension Scheme.
(2) 2019 cash generation is net of the £250 million cost of capitalising Standard Life International for Brexit.
(3) Split of SCR on a Regulatory Capital basis.
(4) Scenario assumes stress occurs on 1 July 2019. Assumes recalculation of transitionals (subject to PRA approval).
(5) All sensitivities as of 30 June 2019. Source: Company disclosure.
(6) "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 and stated net of taxation.
(7) Source: Broadridge Defined Contribution and Retirement Income Report 2018 – Q4 2017 figures.
(8) Source: ABI statistics issued in October 2019 for 12-month period to 30 June 2019 based on new Phoenix Life policy sales trading as SunLife.
(9) The 30 June 2019 Solvency II capital position is an estimated position and assumes a dynamic recalculation of transitionals. Had a dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would decrease by £0.2 billion and 5% respectively.
(10) Target ratio based on Fitch leverage. Fitch leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds)/debt + equity (Shareholder equity + Unallocated surplus + RT1).
(11) Dividends rebased to take into account the bonus element of rights issues.

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