



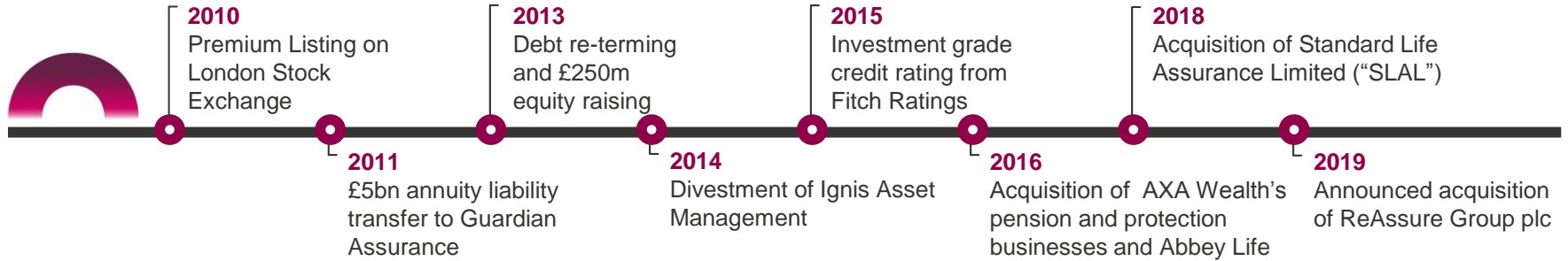
Evolving our BPA Franchise

Justin Grainger
Head of BPA, Phoenix Group

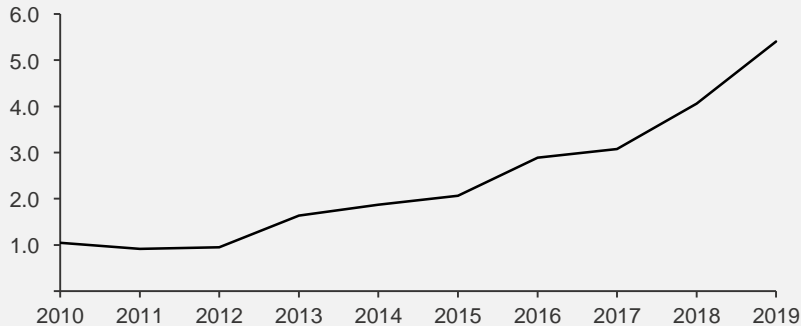
*RBC 2020 Bulk Annuities Seminar
13 May 2020*



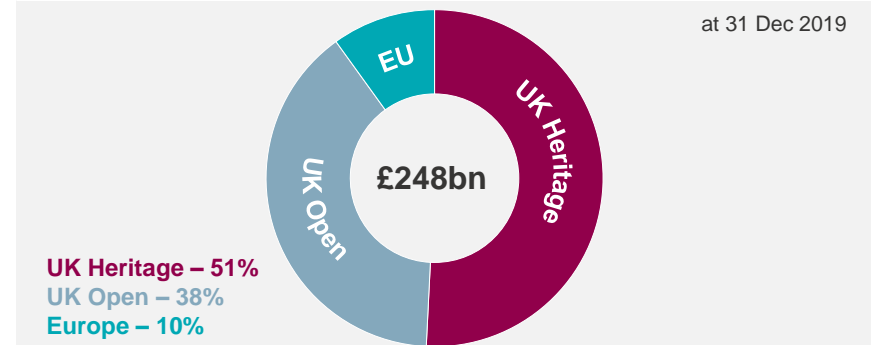
Phoenix's growth journey continues



Market capitalisation (£bn)

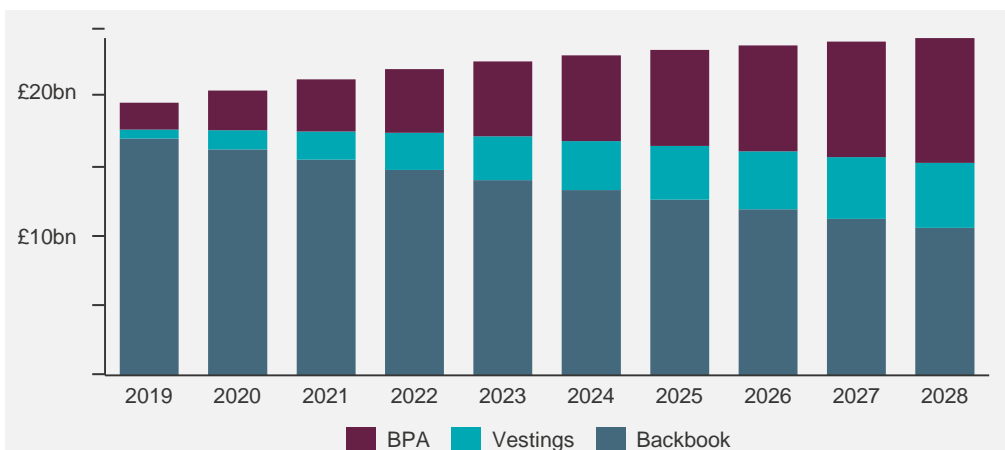


Diversified inforce business



Our Heritage business will grow through new annuity business

Our annuity book will continue to grow⁽¹⁾



Annuity business is value accretive

Provides long-term cash flows to support future dividends

Incremental to our cash generation targets

See Appendix VII for footnotes

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

Reinsured risk

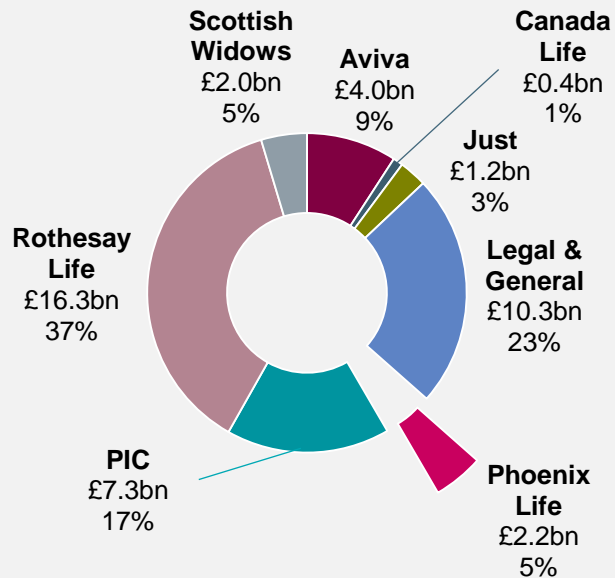
Over 90% of longevity risk reinsured

Asset allocation

Appropriate allocation to illiquid assets

We are at the beginning of our BPA journey

Market share



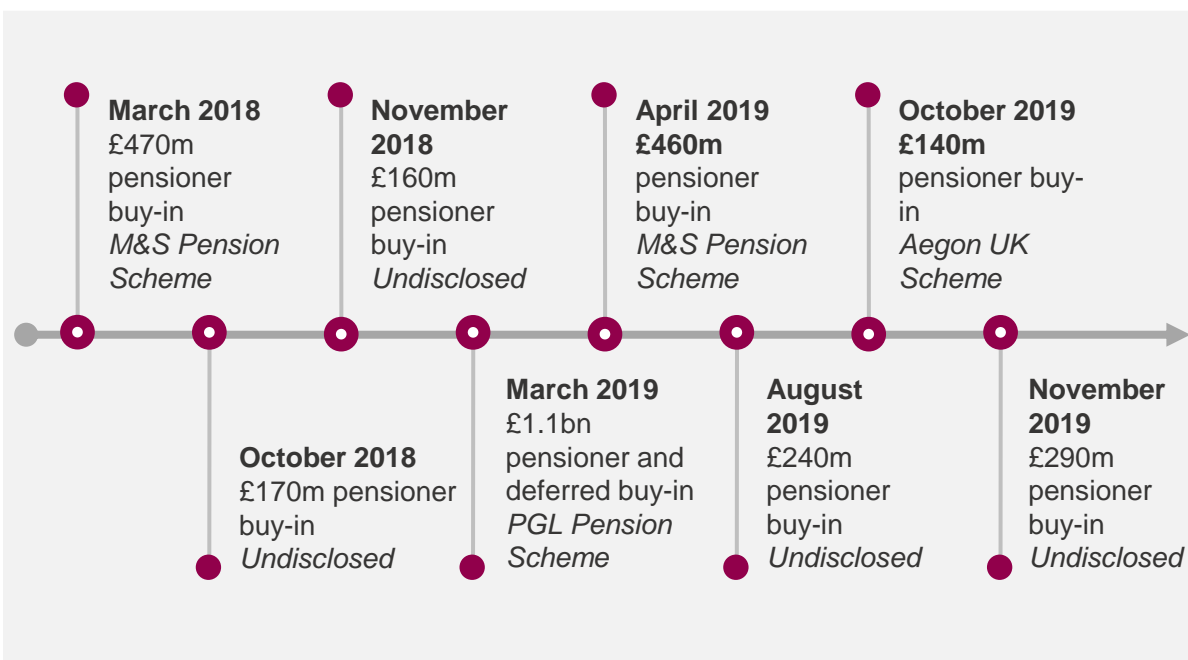
Market segmentation

	Appetite by transaction size					
	Deferreds	<£50m	£50m-£100m	£100m-£500m	£500m-£2bn	>£2bn
Aviva	✓	●	●	●	●	○
Canada Life	✗	●	●	●	○	○
Just	?	●	●	◐	○	○
Legal & General	✓	●	●	●	●	●
Phoenix Life	✗	○	◐	●	◐	○
Pension Insurance Corporation	✓	◐	●	●	●	●
Rothsay Life	✓	○	○	◐	●	●
Scottish Widows	✓	○	●	●	●	○

Source: Hymans Robertson

Our BPA franchise is growing to support business strategy

We have capitalised on both internal and external opportunities



Key stats

Over **£4 billion** of new BPA business delivered over 3 years

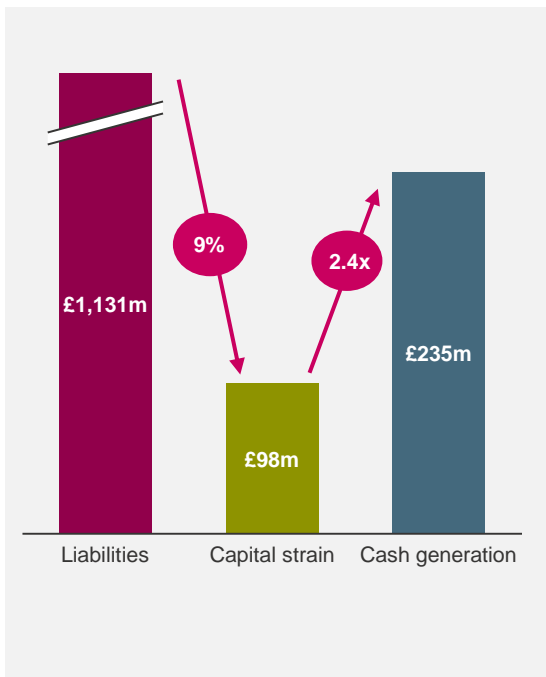
Our franchise delivers mix of internal and external buy-ins: Internal **£2.3bn** | External **£1.9bn**

£485 million of incremental long-term cash generation from external BPA transacted over 2018 and 2019

BPA provides **c. 1.5x** coverage of shareholder dividend

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

2019 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 management policy) of 6-7 years

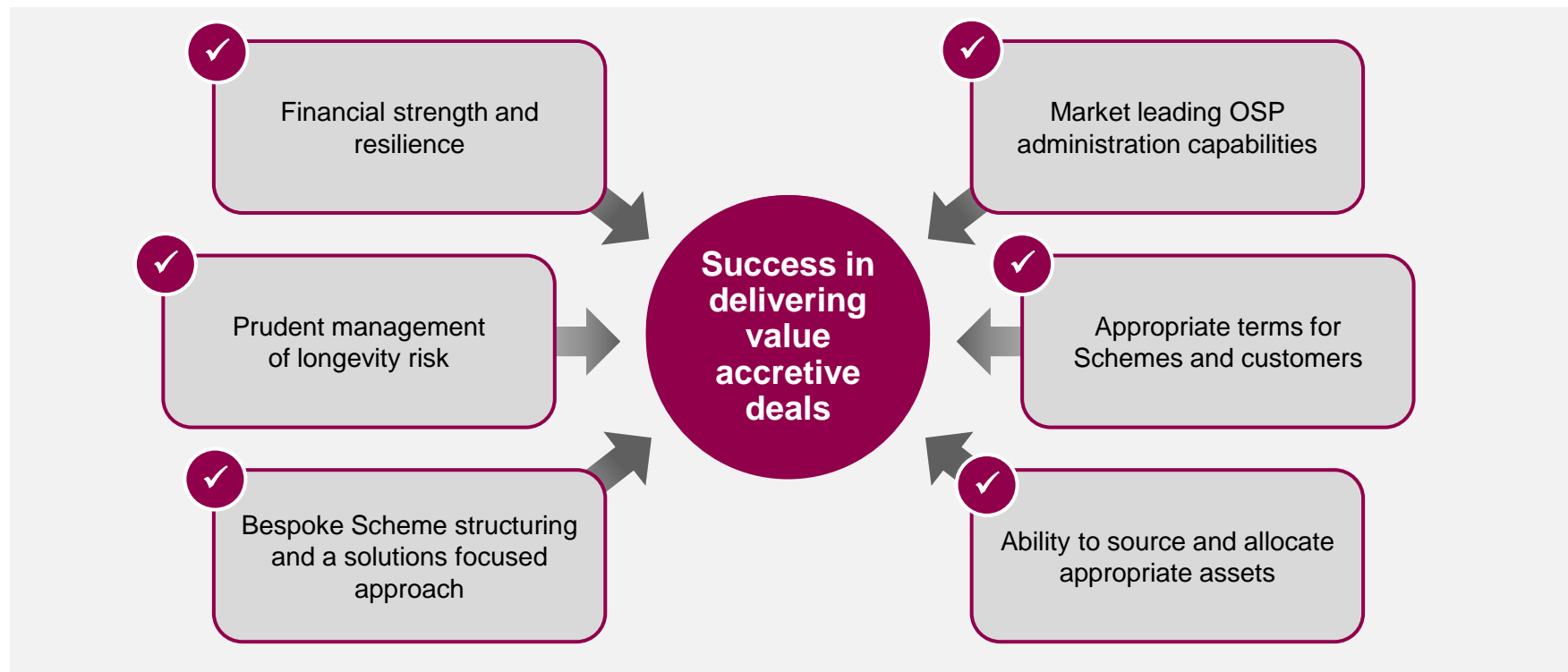
2019 activity

- Priced 27 transactions
- 5 BPA deals completed
- c. 5% share of £44 billion market
- Established participant in market place

2020 plans

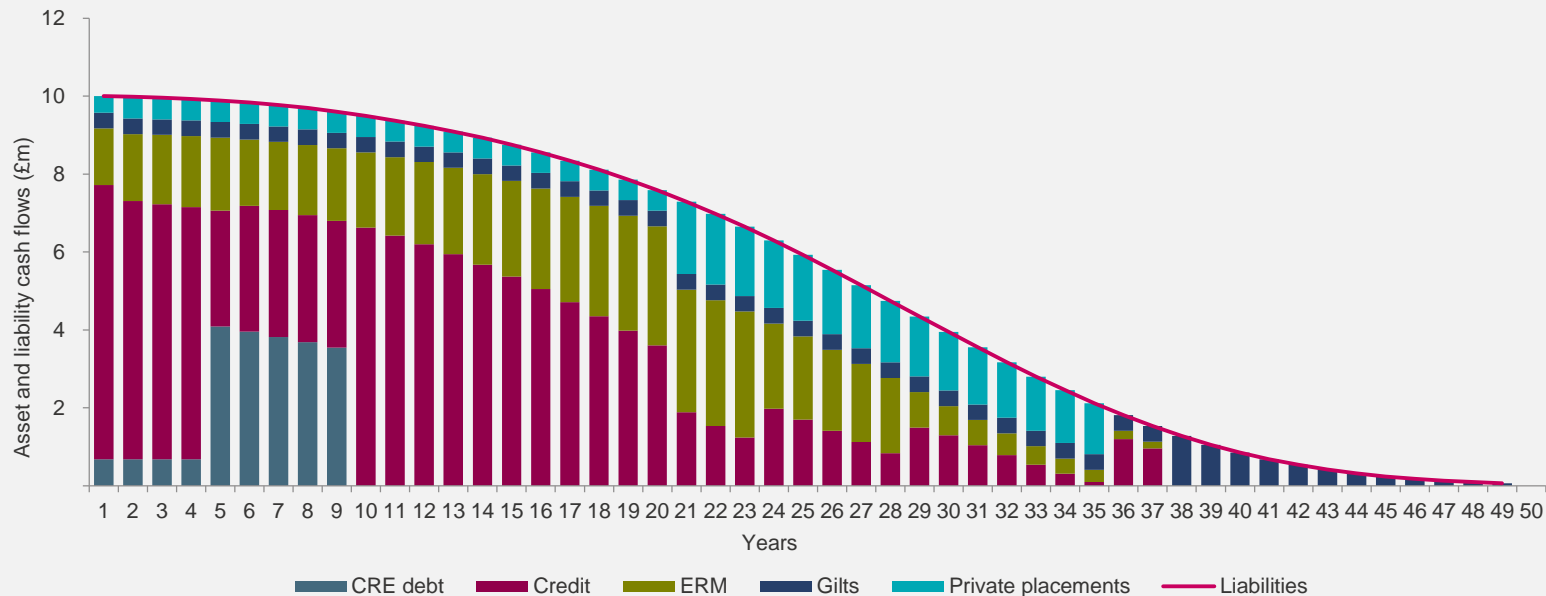
- c. £100 million capital allocated to external BPA
- Supported by illiquid asset sourcing plans
- Investing in developing our franchise

Competitive advantages in BPA market and asset origination allow Phoenix to successfully compete in this market and deliver value accretive deals



Sourcing high quality assets which match liability duration is a key criteria for success in the BPA market

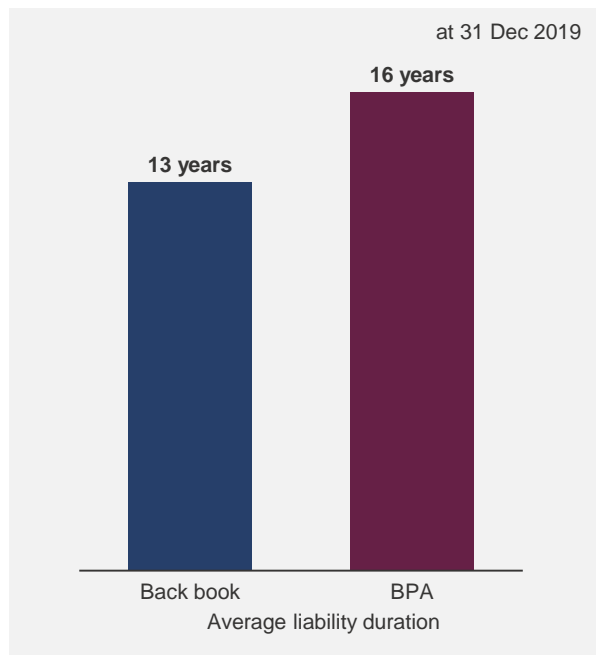
Illustrative asset and liability matching profile



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

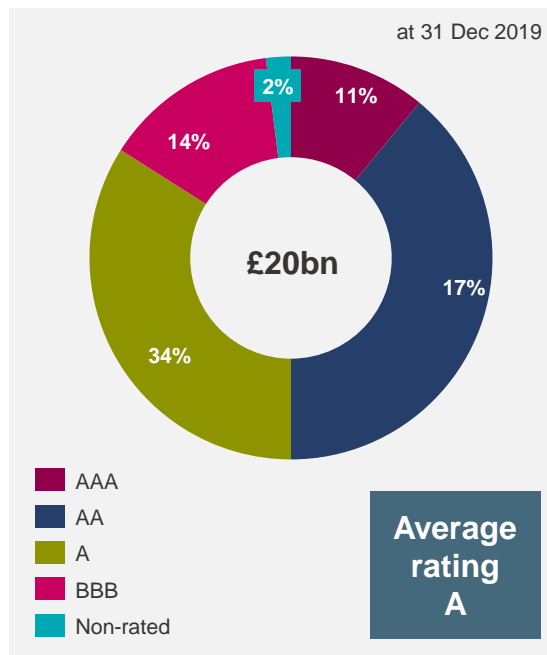
1

Appropriate duration



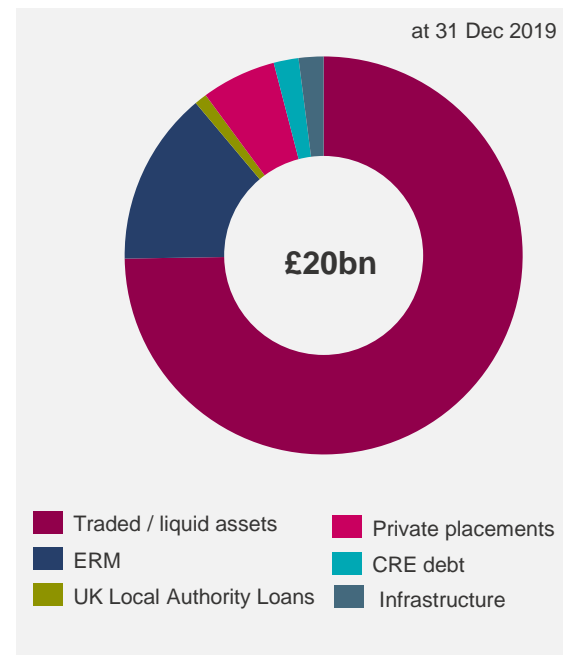
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Credit discipline



3

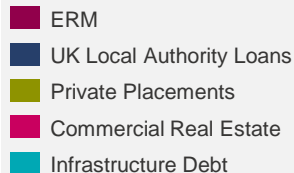
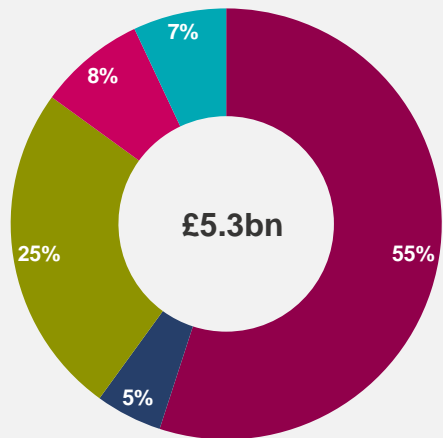
Diversification



A diversified illiquid asset portfolio is an integral but proportionate part of our annuity strategic asset allocation

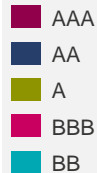
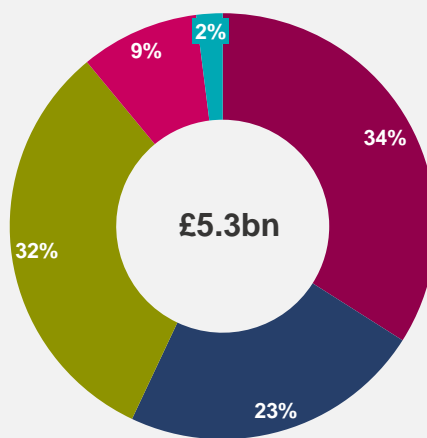
Illiquid asset portfolio

at 31 Dec 2019



Illiquid asset credit quality

at 31 Dec 2019



**Average
rating
A+**

Key messages

£1.3 billion of illiquid asset origination in 2019 delivered £140 million Solvency II benefit

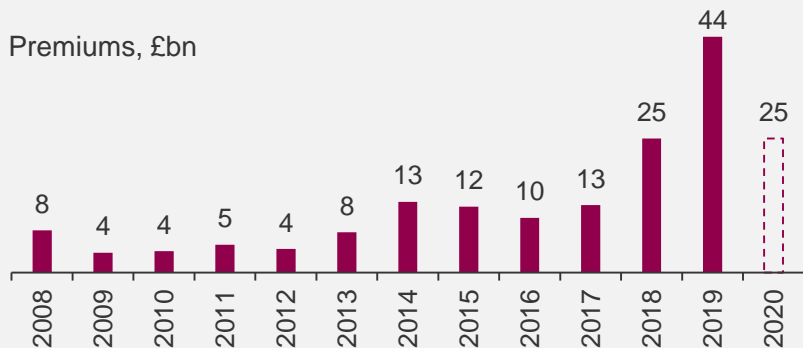
2019 origination diversified by duration and spread with A+ average credit rating

Illiquid assets comprise 26% of assets backing annuity business

Target 40% allocation to illiquid assets by originating c. £1 billion p.a.

2019 was another record-breaking year for BPA

Buy-in and buy-out volumes since 2008



Source: LCP, Hymans Robertson

UK pension insurance deals jump to record \$50 billion in 2019

The UK bulk annuity market ... has soared to record levels above 40 billion pounds (\$51 billion) in 2019 and is expected to stay strong as costs fall

Reuters

Record-breaking deals


Pension scheme	Deal size	Insurer
Telent	£4.7bn	Rothesay Life
Rolls Royce	£4.6bn	Legal & General
Allied Domecq	£3.8bn	Rothesay Life
Asda	£3.8bn	Rothesay Life
British American Tobacco	£3.4bn	Pension Insurance Corporation

Bulk annuity market to quadruple by 2030

UK pension schemes have transferred £135bn of liabilities to insurers over the last decade, and this is set to quadruple over the next 10 years, Mercer has predicted.

The Actuary

Phoenix is well placed to evolve its BPA franchise

- 
- Strategic priority to deliver selective and proportionate BPA to support long-term cash generation
 - Increased in-house expertise in BPA and illiquid asset sourcing to deliver bespoke products for clients
 - Resilient solvency balance sheet with low volatility to market risks relative to peers
 - Focus on proposition development to widen product offering to include deferred liabilities
 - Optimisation of capital and reinsurance through leverage of specialist teams and strong relationships



Appendices

- I Diversified £5.3 billion illiquid asset portfolio
- II Illiquids assets: Equity Release Mortgage portfolio
- III Other illiquids assets portfolio
- IV 2019 illiquid asset origination
- V Shareholder Capital Coverage Ratio sensitivities
- VI Shareholder Capital Coverage sensitivities peer comparisons

Appendix I: Diversified £5.3 billion illiquid asset portfolio

Equity Release Mortgages £2.9 billion

- Broad regional spread and average LTV of 34%
- Average AA credit rating

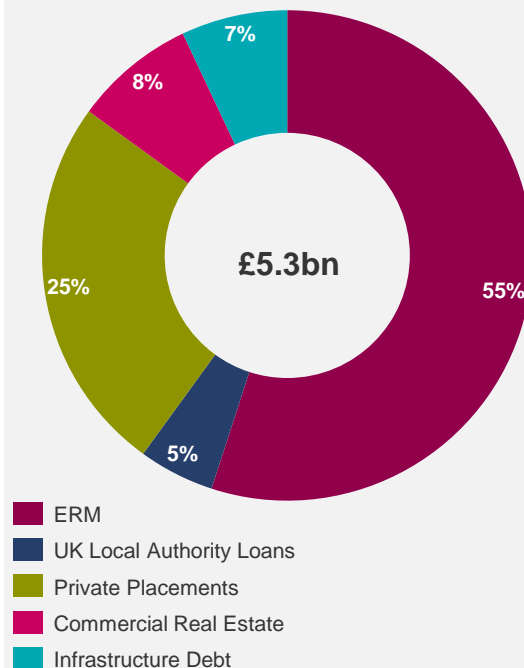
Private Placements £1.4 billion

- Diverse portfolio of investment grade corporate loans and bonds
- c70% of exposures are secured on assets

Commercial Real Estate £0.4 billion

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

at 31 Dec 2019



UK Local Authority Loans £0.3 billion

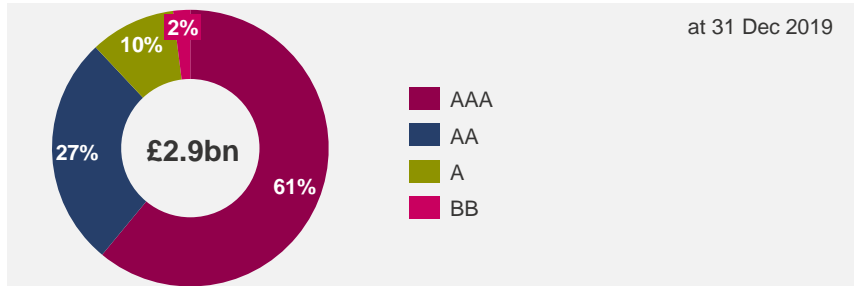
- Unsecured but with implicit support of UK Government
- Average A+ credit rating
- Loans across 23 different local authorities with exposures ranging from £0.5 million - £85 million

Infrastructure Debt £0.3 billion

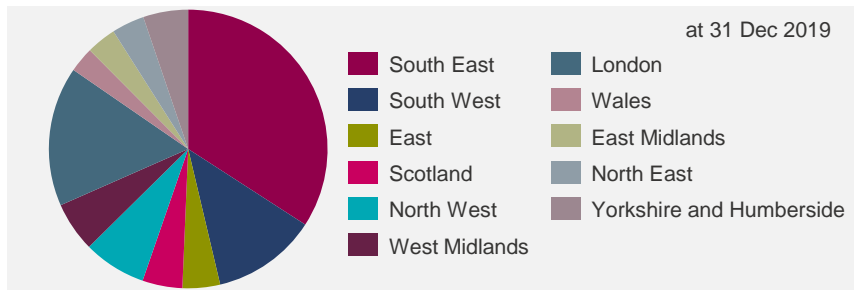
- Secured on cash flows from long-term contracts with highly rated counterparties
- 62% of portfolio backed by UK Government (directly or indirectly)

Appendix II: Illiquids assets: Equity Release Mortgage portfolio

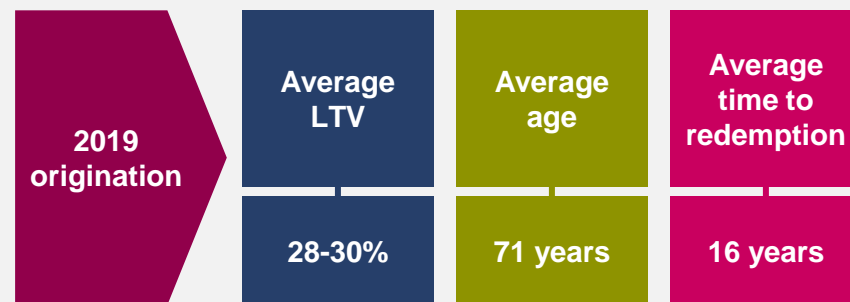
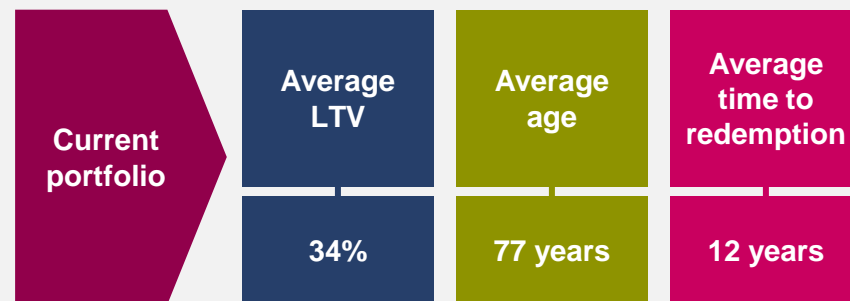
Credit rating determined through securitisation



Regional distribution



Key portfolio statistics

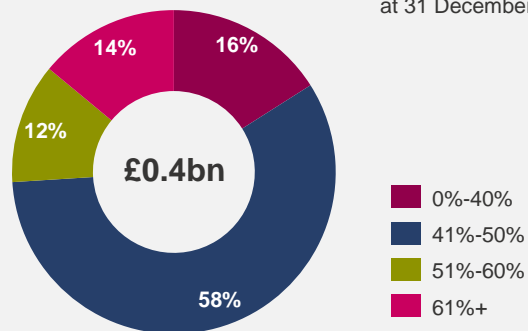


Appendix III: Other illiquids assets portfolio

Commercial Real Estate £0.4 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

Current LTV levels of CRE portfolio



Private Placements £1.3 billion

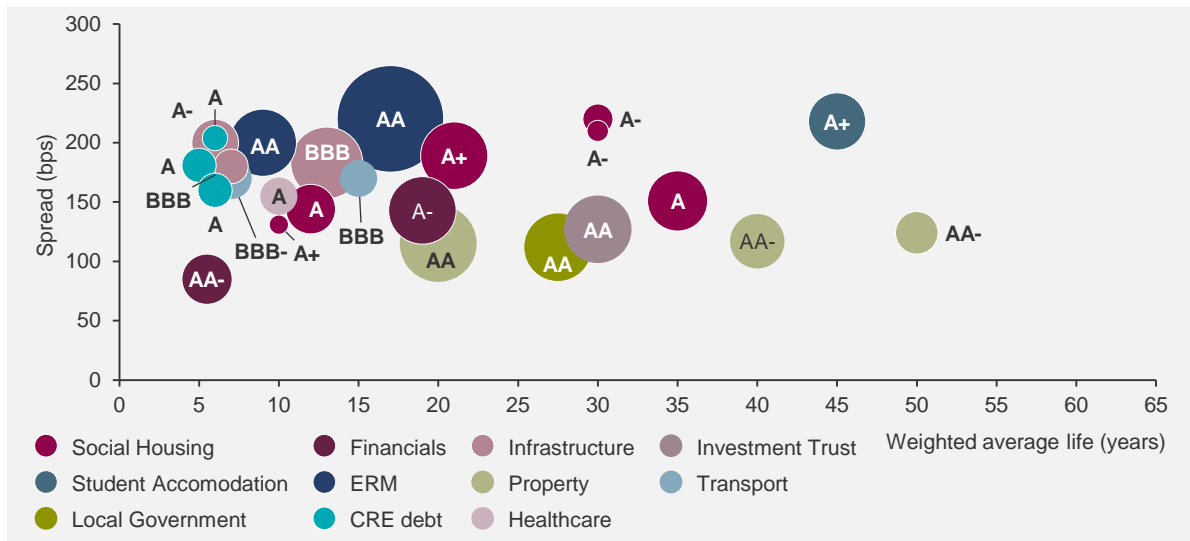
- c70% secured on a variety of assets
- Diversified portfolio across 38 exposures (counterparties)
- Average loan size of £21 million
- Average credit rating of A

5 largest Private Placements

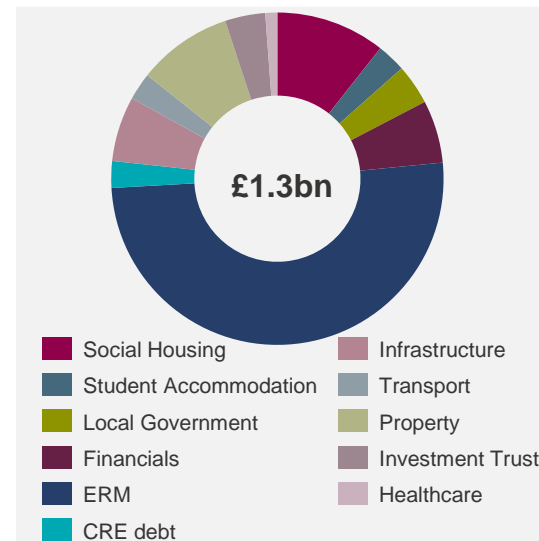
1	£140m	Rated A	Secured on portfolio of healthcare facilities
2	£109m	Rated A	Social housing provider (secured)
3	£97m	Rated A	Secured on a portfolio of city centre student accommodation across the Midlands
4	£83m	Rated A	Secured loan to a major UK utility company
5	£71m	Rated AA	Unsecured loan to support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

Appendix IV: 2019 illiquid asset origination

2019 origination focused on longer maturities at attractive spreads



Diversified portfolio



Key statistics:

£1.3 billion originated

Average deal size of £30 million

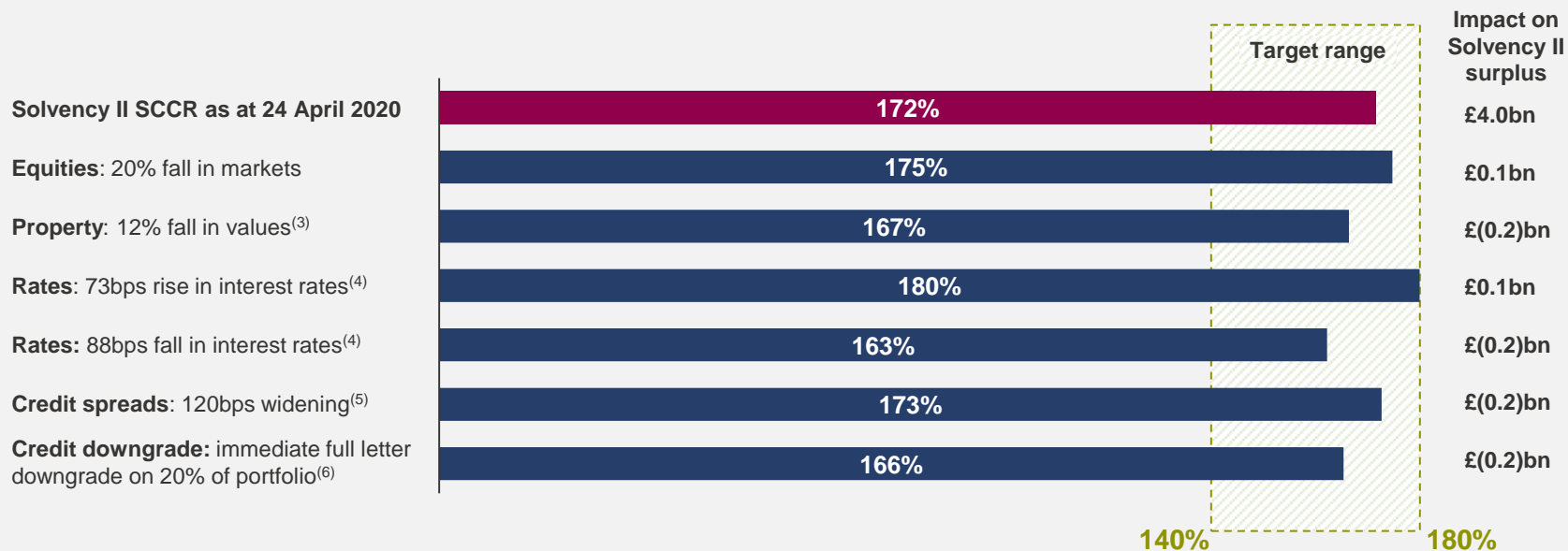
Average credit rating of A+

Weighted average life of 19 years

£250 million ESG investment

Appendix V: Shareholder Capital Coverage Ratio sensitivities

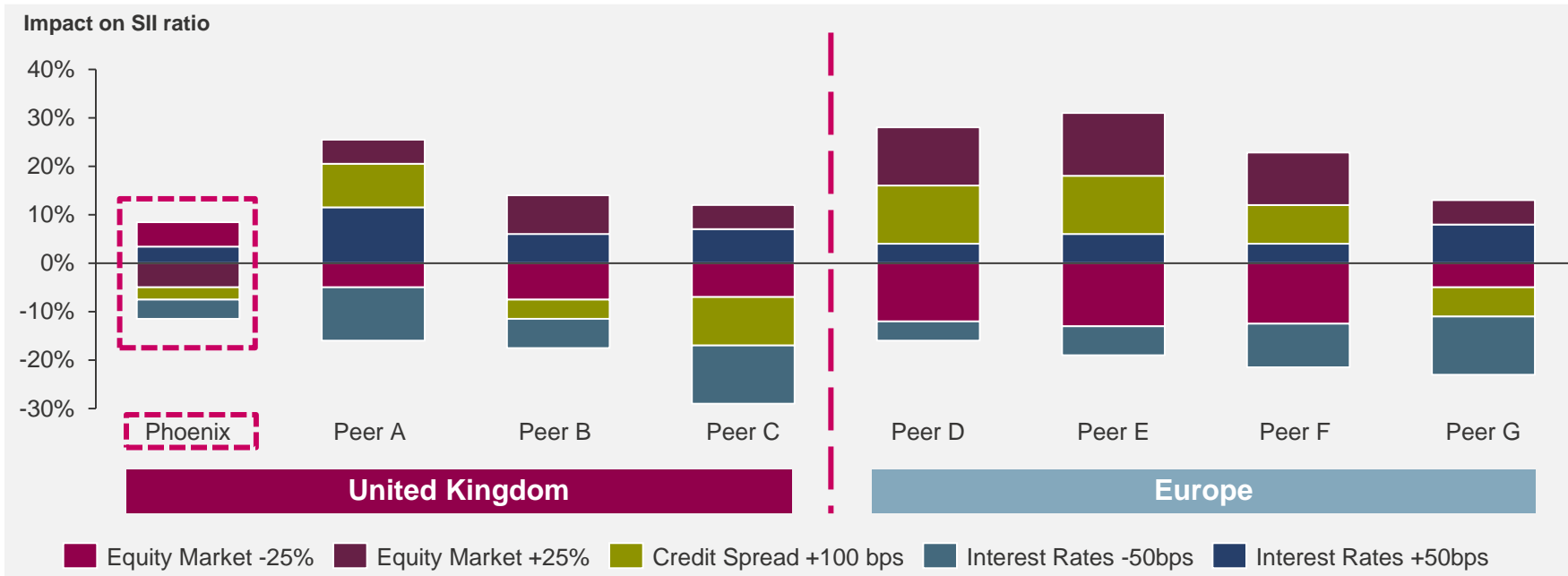
PGH Solvency II Shareholder Capital Coverage Ratio sensitivities⁽²⁾



See Appendix VII for footnotes

Appendix VI: Phoenix's resilience to market risks is strong relative to peers

FY19 Phoenix Shareholder Capital Coverage Ratio (SCCR) sensitivities relative to Life peers⁽⁷⁾



See Appendix VII for footnotes

Appendix VII: Footnotes

- (1) Assumptions in graph: £750 million vesting annuities per annum, £1 billion BPA per annum
- (2) Sensitivity assumes stress occurs on Day1 and that there is no market recovery
- (3) Property stress represents an overall average fall in property values of 12%
- (4) Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interaction of rates with other correlated risks including longevity
- (5) Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades
- (6) Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade
- (7) All sensitivities as of 31 December 2019. Source: Company disclosure

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- Statements containing the words: 'believes', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated.
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