# CASH
# RESILIENCE
# GROWTH

Full Year 2019 Results
9 March 2020


# Nicholas Lyons

Chairman


PHOENIX GROUP

# Phoenix's growth journey continues

**2010**
Premium Listing on London Stock Exchange

**2011**
£5bn annuity liability transfer to Guardian Assurance

**2013**
Debt re-terming and £250m equity raising

**2014**
Divestment of Ignis Asset Management

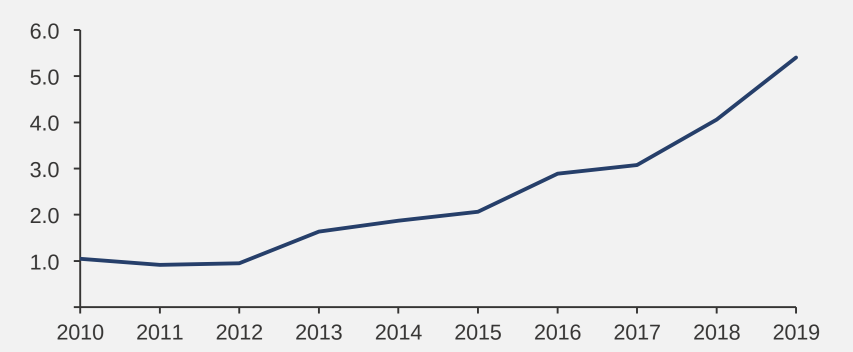
**2015**
Investment grade credit rating from Fitch Ratings

**2016**
Acquisition of AXA Wealth's pension and protection businesses and Abbey Life

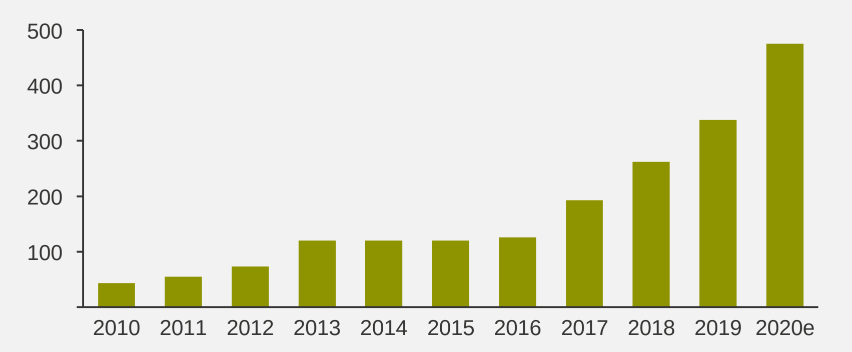
**2018**
Acquisition of Standard Life Assurance Limited ("SLAL")

**2019**
Announced acquisition of ReAssure Group plc

## Market capitalisation (£bn)




## Annual dividend (£m)



# Committing to a sustainable future

1

**DELIVER FOR OUR CUSTOMERS**

2

**FOSTER RESPONSIBLE INVESTMENT**

3

**REDUCE OUR ENVIRONMENTAL IMPACT**

4

**BE A GOOD CORPORATE CITIZEN**

**WORK ETHICALLY WITH OUR SUPPLY CHAIN**

**GOVERNANCE AND GOOD BUSINESS PRACTICE**

# Agenda

| | | |
|---|---|---|
| 1 | **Welcome** | **Nicholas Lyons**<br>Chairman |
| 2 | **Introduction** | **Clive Bannister**<br>Group Chief Executive |
| 3 | **2019 strategic priorities** | **Jim McConville**<br>Group Finance Director and Group Director, Scotland<br>**Rakesh Thakrar**<br>Deputy Group Finance Director |
| 4 | **Outlook** | **Andy Briggs**<br>Group Chief Executive Designate |
| 5 | **Concluding remarks and Q&A** | **Nicholas Lyons**<br>Chairman |

# Clive Bannister

Group Chief Executive

# Strong results across all Key Financial Performance Indicators

**CASH GENERATION**

£707m

**PGH SOLVENCY II SURPLUS**(1)

£3.1bn

**PGH SHAREHOLDER CAPITAL COVERAGE RATIO**(1)(2)

161%

**DIVIDEND PER SHARE**

46.8p

**IFRS OPERATING PROFIT**

£810m

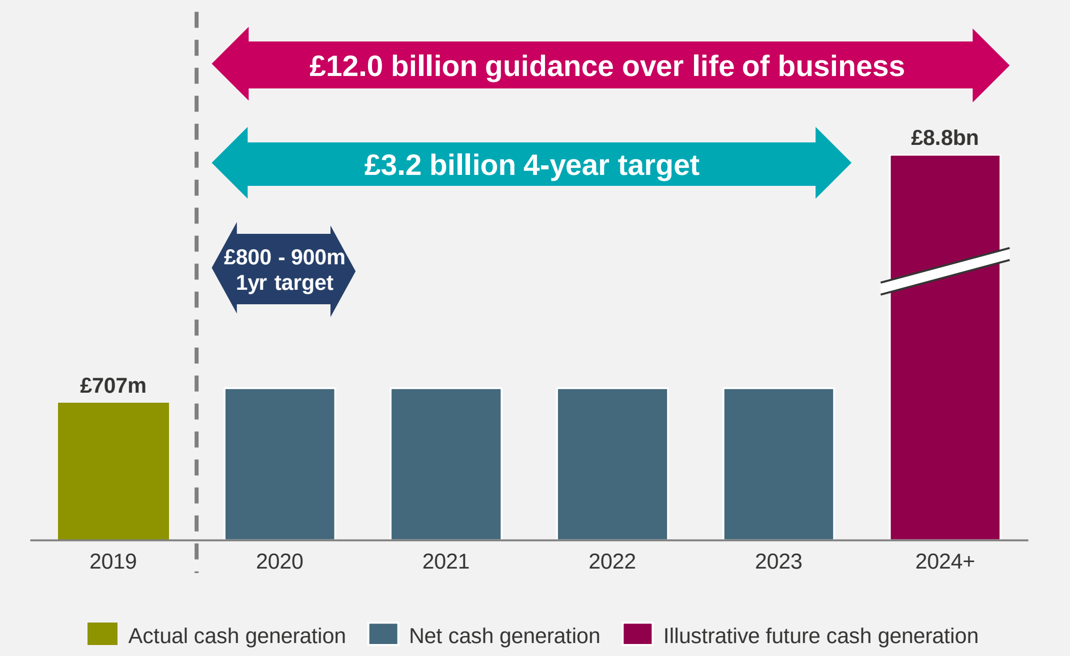
See Appendix XIX for footnotes

# Phoenix delivered against all 2019 strategic priorities

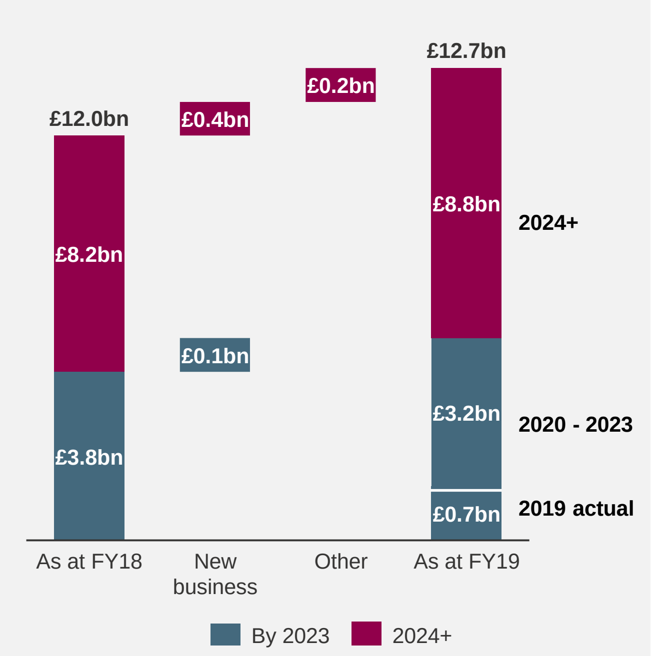
| | | |
|---|---|---|
| **Financial targets** | • Strong cash generation of £707 million, exceeding upper end of target range<br>• Maintained strong solvency position and investment grade rating | ✓ |
| **Standard Life Assurance transition** | • Strong progress across all phases and on track to deliver £1.2 billion synergy targets<br>• Enlarged partnership with Tata Consultancy Services (“TCS”) announced | ✓ |
| **Customer outcomes** | • Exceeded all customer service metric targets<br>• Expanded digital proposition and progressed a range of customer initiatives | ✓ |
| **New business** | • £240 million incremental long-term cash generation from Open businesses<br>• £235 million incremental long-term cash generation from Bulk Purchase Annuities | ✓ |
| **Growth** | • £3.2 billion acquisition of ReAssure Group plc announced<br>• 2019 new business brings sustainability to cash generation | ✓ |

# Unchanged long-term cash generation of £12 billion demonstrates sustainability

## Illustrative future cash generation from in-force business




## Cash generation roll forward




Charts not to scale

# Acquisition of ReAssure Group plc is strategically compelling, and will deliver £7 billion of long-term cash generation

## ReAssure Group plc ("ReAssure")

- Acquiring 100% of ReAssure, a consolidator of Heritage life businesses
- Acquisition of Old Mutual Wealth Life Assurance Limited ("OMW") completed on 31 December 2019
- Part VII transfer of the L&G mature savings business expected to complete in H1 2020

| Cash generation[3] | AUA[4] | Policies[5] |
|---|---|---|
| £7 billion | £84 billion | 4.1 million |

## Meets all acquisition criteria

**✓ Value accretive**

- £7 billion incremental cash generation[3]
- Consideration represents 91% of own funds[6] and £800 million of cost and capital synergies anticipated

**✓ Supports the dividend policy**

- 3% dividend increase
- Enhanced dividend sustainability

**✓ Maintains investment grade rating**

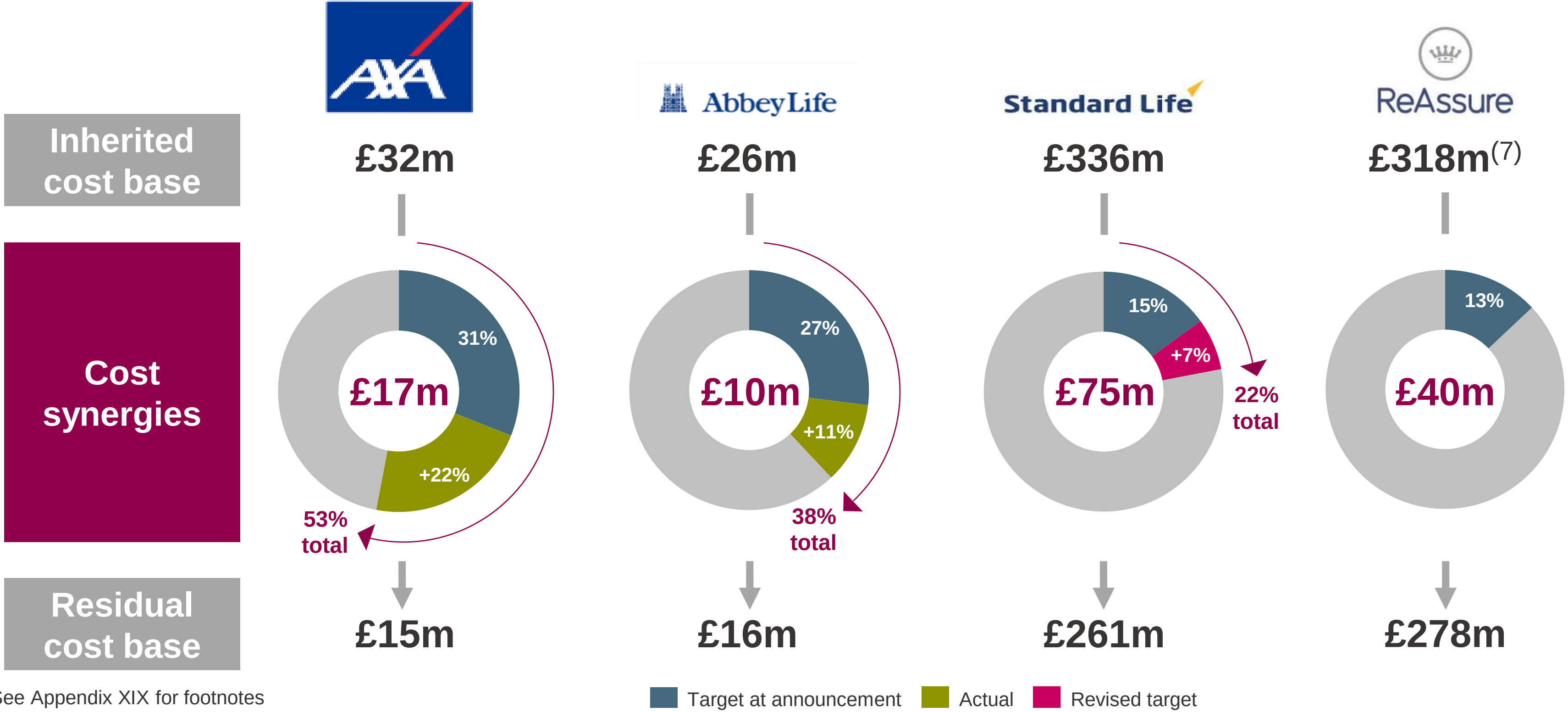
- Efficient funding structure ensures leverage ratio remains within target range over the medium term

See Appendix XIX for footnotes

# We expect the ReAssure acquisition to complete mid-2020

| | | |
|---|---|---|
| 6 Dec 2019 | Transaction announced | • Fitch rating outlook revised from "stable" to "positive" |
| 31 Dec 2019 | ReAssure completes OMW acquisition | • £200 million of additional synergies reduces price to own funds ratio of ReAssure acquisition by 4% to 87% |
| 22 Jan 2020 | $750 million RT1 bond issued | • Reduces pro-forma Fitch leverage ratio by 4% to 26% |
| 13 Feb 2020 | Shareholder approval | • 99.99% votes in favour |
| End Mar 2020 | Change in control application | • Pre-application already submitted |
| Jul 2020 | Target completion date | • Subject to regulatory approvals |

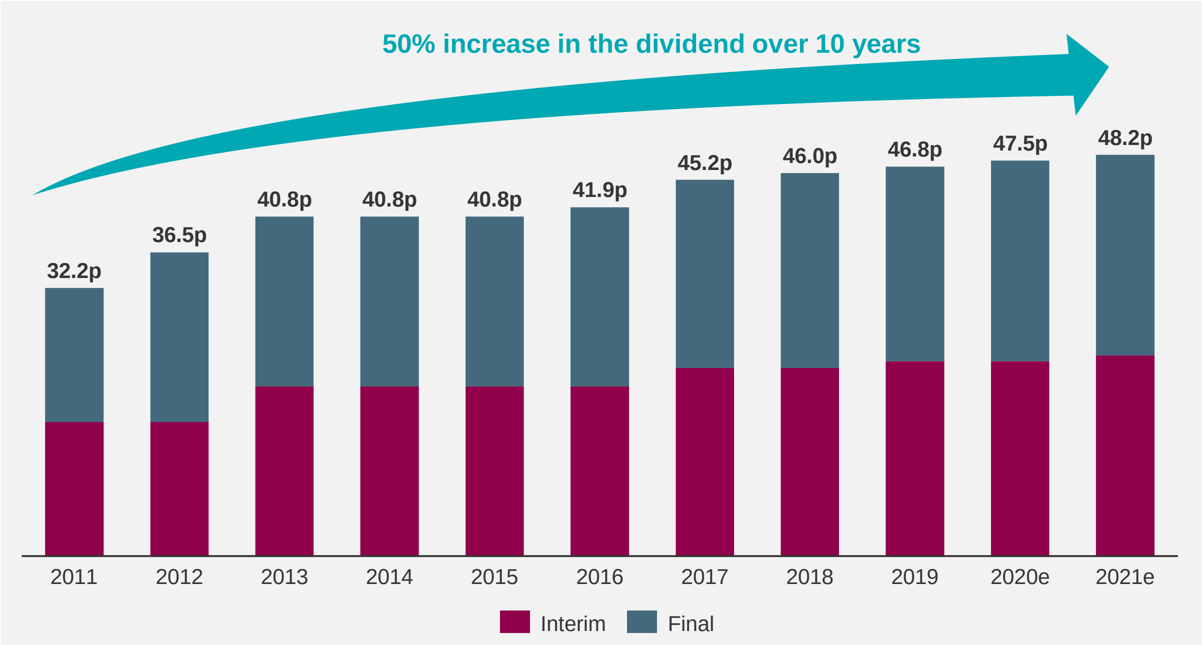
# Phoenix has a strong track record of delivering cost synergies




See Appendix XIX for footnotes

# ReAssure transaction supports 3% dividend increase and delivers 50% uplift in dividend over 10 years

## Dividend per share(8)




## Key messages

1. 3% dividend increase triggered by ReAssure transaction
2. 5th dividend increase in 9 years
3. Dividend increases equivalent to CAGR of 4.1% over 10 years
4. Dividend policy remains stable and sustainable

See Appendix XIX for footnotes

# Jim McConville

Group Finance Director and Group Director, Scotland

# Phoenix has delivered on its 2019 strategic priorities

1. FINANCIAL TARGETS
2. TRANSITION
3. CUSTOMER OUTCOMES
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# Financial highlights

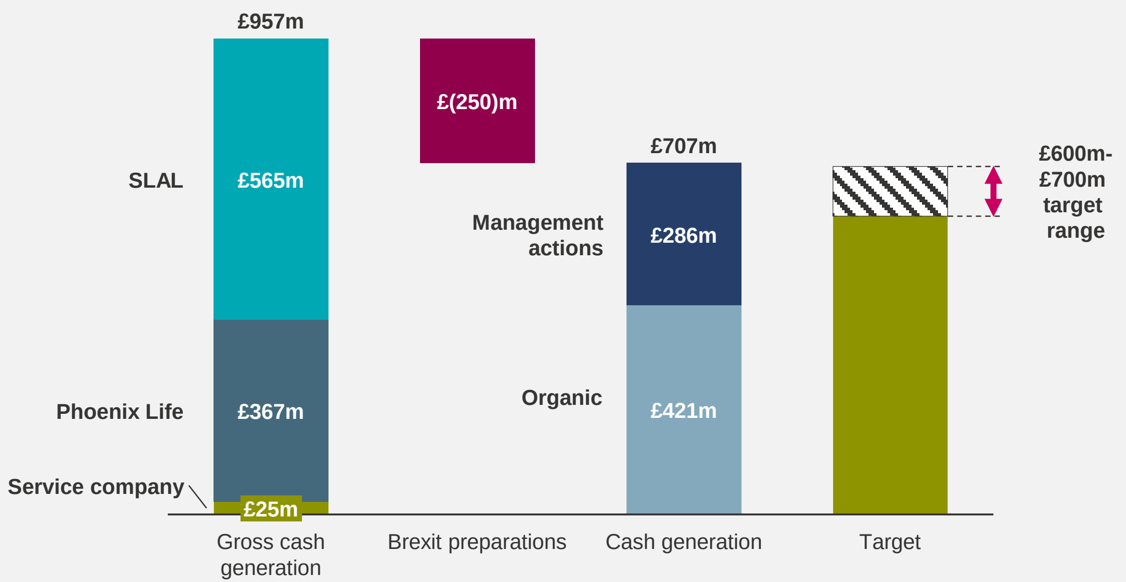
| *Financial performance:* | | FY19 | FY18 |
|---|---|---|---|
| **Cash** | Cash generation | £707m | £664m |
| **Dividends** | Dividend per share | 46.8p | 46.0p(8) |
| **IFRS** | Operating profit before tax | £810m | £708m |
| **New business** | Incremental long-term cash generation | £475m | £530m(9) |
| | New business contribution(10) – UK Open and Europe | £158m | £154m(9) |

| *Financial position:* | | FY19 | FY18 |
|---|---|---|---|
| **Group capital** | PGH Solvency II surplus | £3.1bn(1) | £3.2bn(11) |
| | Shareholder Capital Coverage Ratio(2) | 161%(1) | 167%(11) |
| **AuA** | Assets under Administration (see Appendix II) | £248bn | £226bn |
| **Leverage** | Leverage ratio (see Appendix I) | 22% | 22% |

See Appendix XIX for footnotes

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

## 2019 cash generation

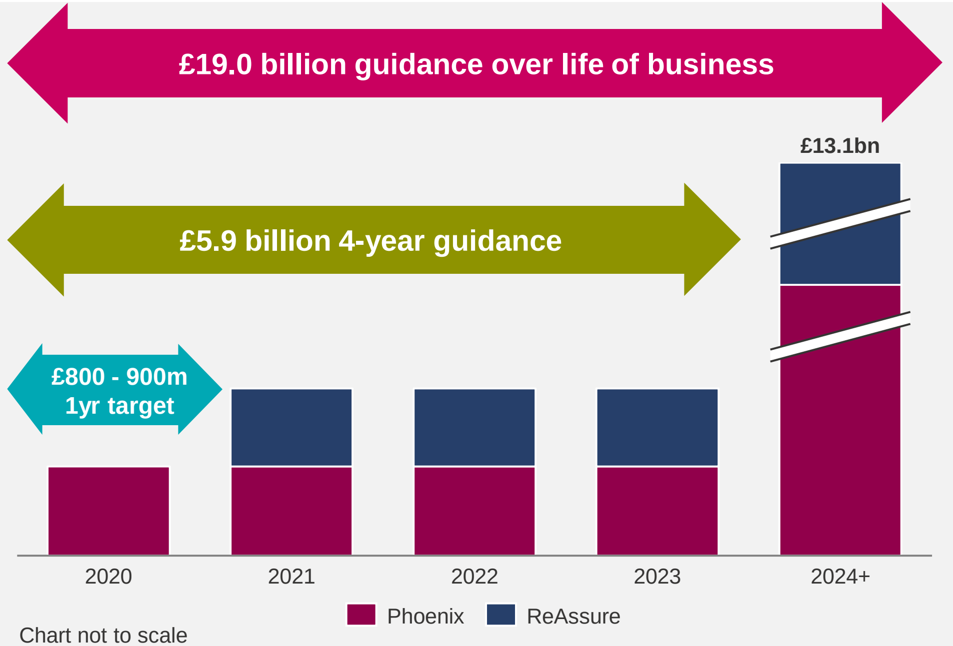



## Key messages

- Management actions comprise c. 1/3rd of 2019 cash and supplement organic cash generation
- £338 million 2019 annual dividend covered 2.8x by gross cash generation
- £250 million Brexit preparations will emerge as future cash generation
- First dividends from SLAL

# £19 billion of predictable long-term cash generation from Combined Group

## Illustrative future cash generation from Combined Group in-force business



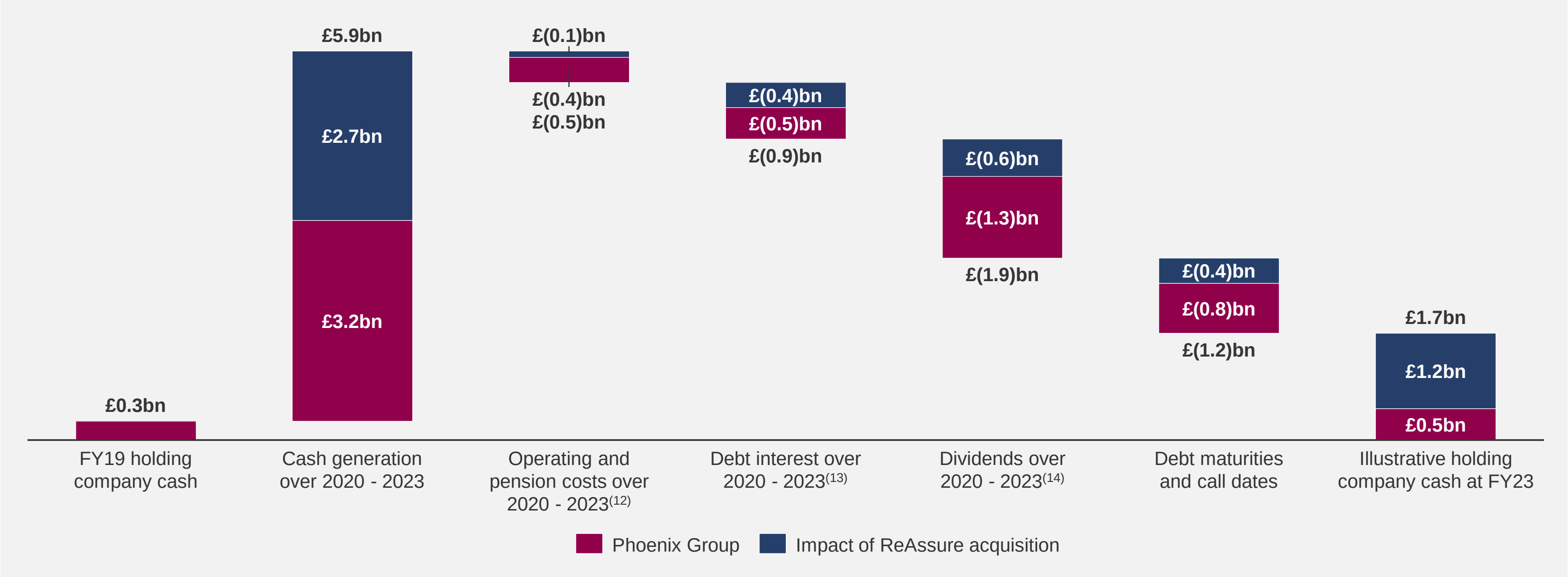

| Cash generation guidance | Phoenix | ReAssure[3] | Combined Group |
|---|---|---|---|
| **Cash generation** *(2020 – 2023)* | £3.2bn | +£2.7bn | **£5.9bn** |
| **Cash generation** *(2024+)* | £8.8bn | +£4.3bn | **£13.1bn** |
| **Total cash generation** | £12.0bn | +£7.0bn | **£19.0bn** |

**Cash generation excludes new Open business, BPA, further M&A and management actions after 2023**

See Appendix XIX for footnotes

# Additional cash generation from ReAssure acquisition supports growth options

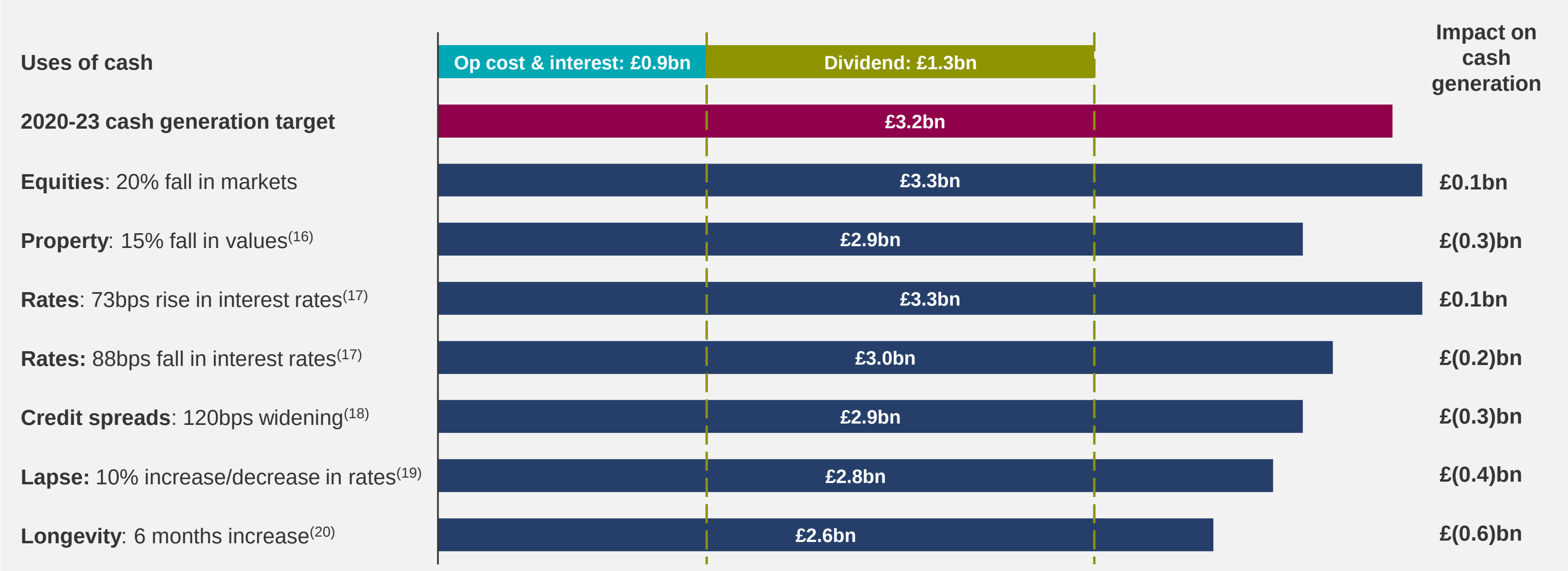
## Combined Group: Illustrative uses of cash from 2020 - 2023




See Appendix XIX for footnotes

# Resilience of cash generation increases confidence in our dividend

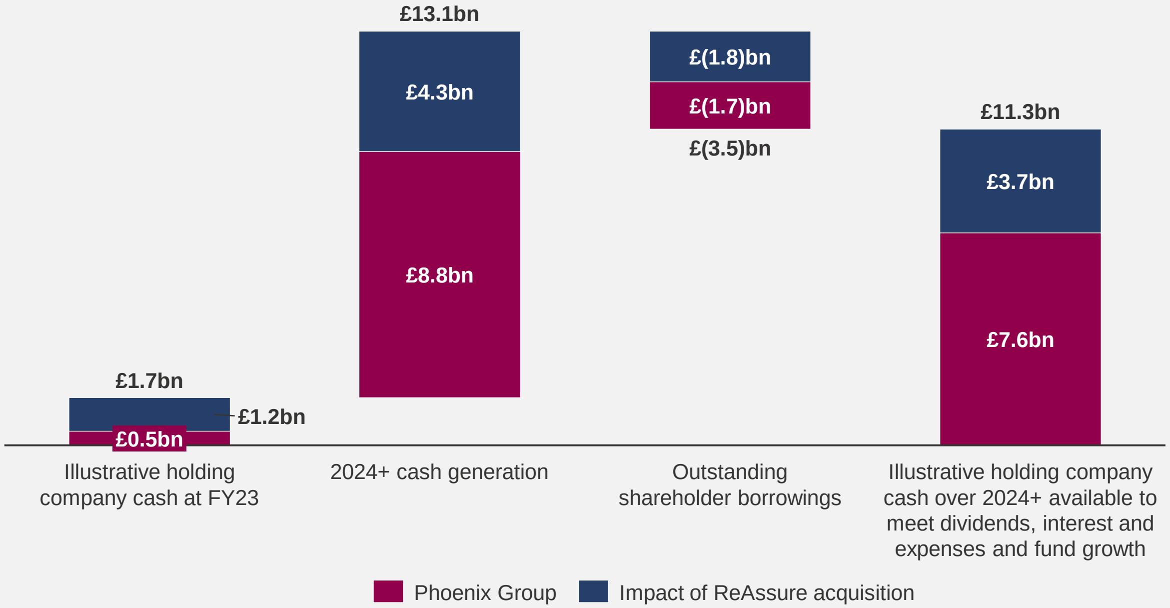
## Phoenix sensitivities for £3.2 billion 2020 - 2023 cash generation target[15]




See Appendix XIX for footnotes

# Phoenix's dividend sustainability is enhanced by the ReAssure acquisition

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




## Key messages

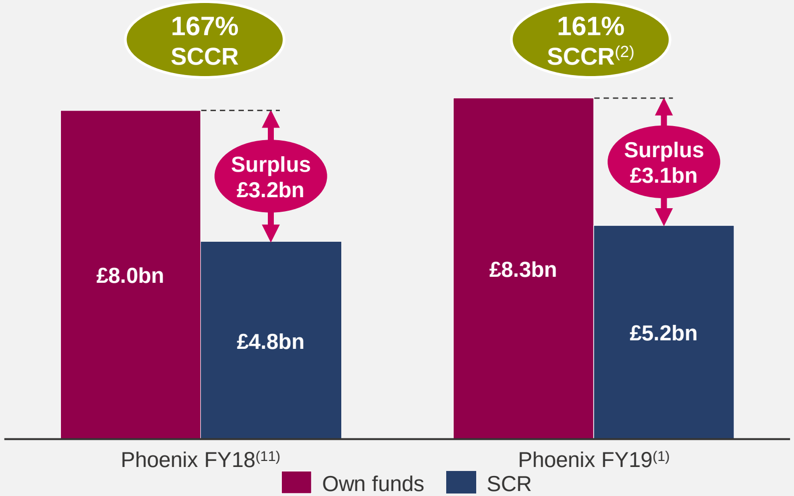
£3.7 billion of additional holding company cash enhances dividend sustainability

Excludes cash generation from new business written 2020+

Excludes management actions from 2024+

# Phoenix maintains a strong capital position with a £3.1 billion Solvency II surplus

## Estimated PGH Shareholder capital position




## "Shareholder value" per share

| | |
|---|---|
| **Shareholder own funds** | **£8.3bn** |
| Less: Tier 2 and Tier 3 debt | £(2.0)bn |
| Less: Restricted Tier 1 debt | £(0.5)bn |
| **Unrestricted Tier 1 ("UT1")** | **£5.8bn** |
| Add: Contract boundaries | £0.1bn |
| Add: Shareholders share of with-profit estate | £0.2bn |
| **Proxy to shareholder value** | **£6.1bn** |

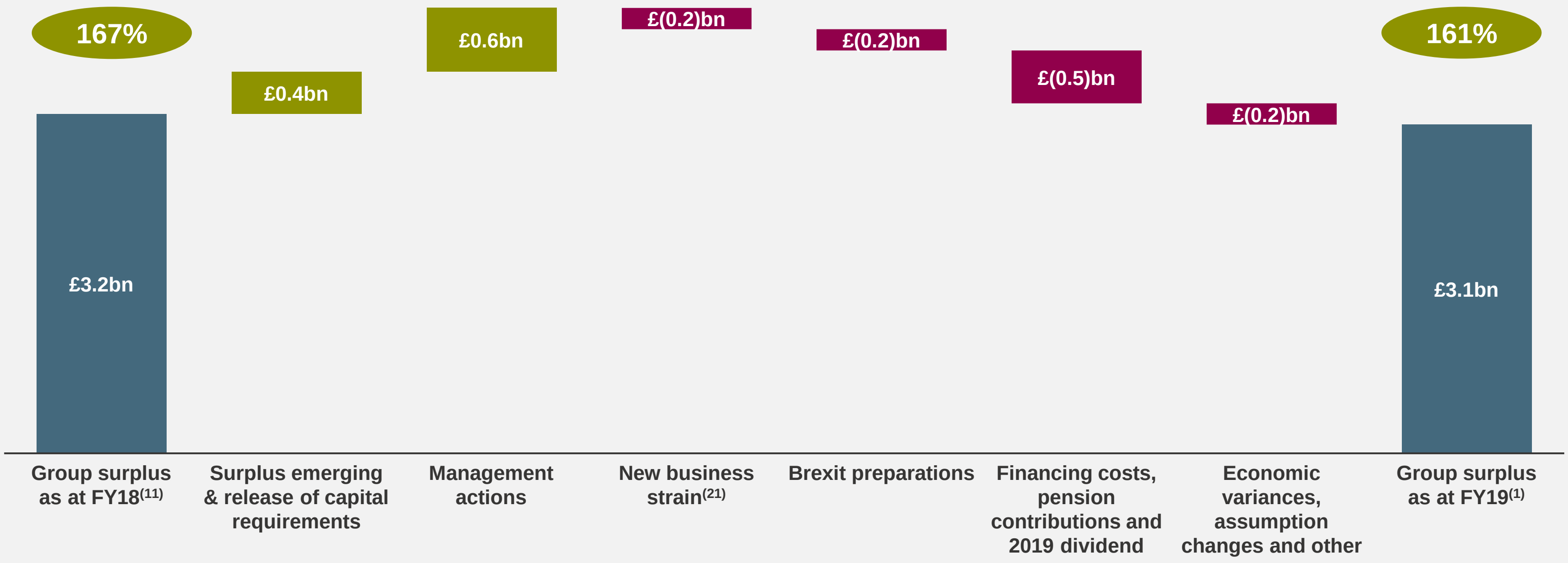
**SHAREHOLDER VALUE PER SHARE** **£8.45**

- £2.1 billion of surplus in unsupported with-profit funds and staff pension schemes is unrecognised
- £169 million final 2019 dividend deducted from FY19 own funds

See Appendix XIX for footnotes

# New business strain offset by surplus emergence and management actions

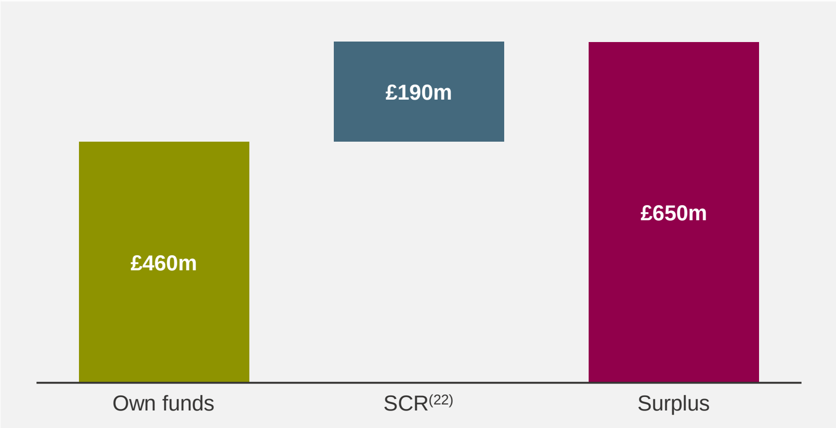
## Change in PGH Solvency II surplus




See Appendix XIX for footnotes

# Management actions of £650 million include £145 million of Standard Life Assurance capital synergies

## Solvency impact of management actions




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

**Reducing SII SCR accelerates cash flows**

## FY19 management actions

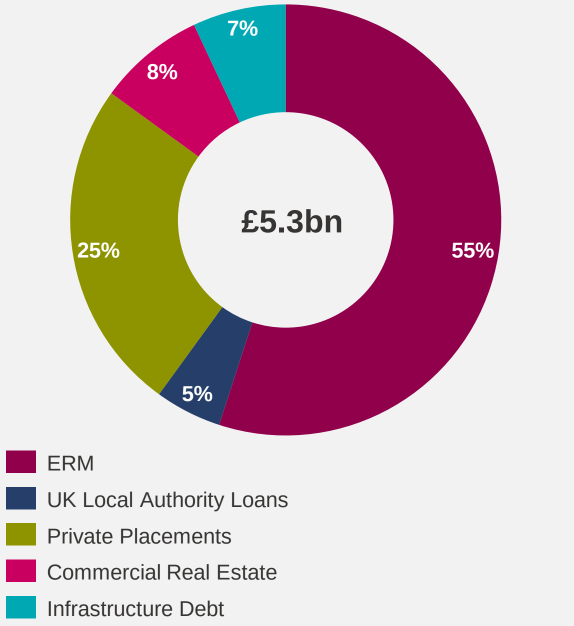
- ✓ Investment of annuity backing assets in illiquid asset classes
- ✓ Methodology harmonisation
- ✓ Matching adjustment fund optimisation
- ✓ Intra-group restructuring
- ✓ ERM securitisation
- ✓ Asset de-risking

See Appendix XIX for footnotes

# “Illiquid” assets are an integral but proportionate part of our annuity strategic asset allocation

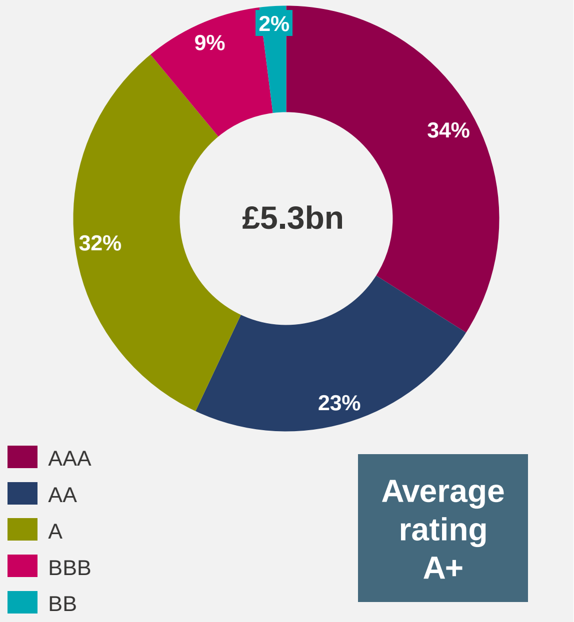
## Illiquid asset portfolio

at 31 Dec 2019




## Illiquid asset credit quality

at 31 Dec 2019



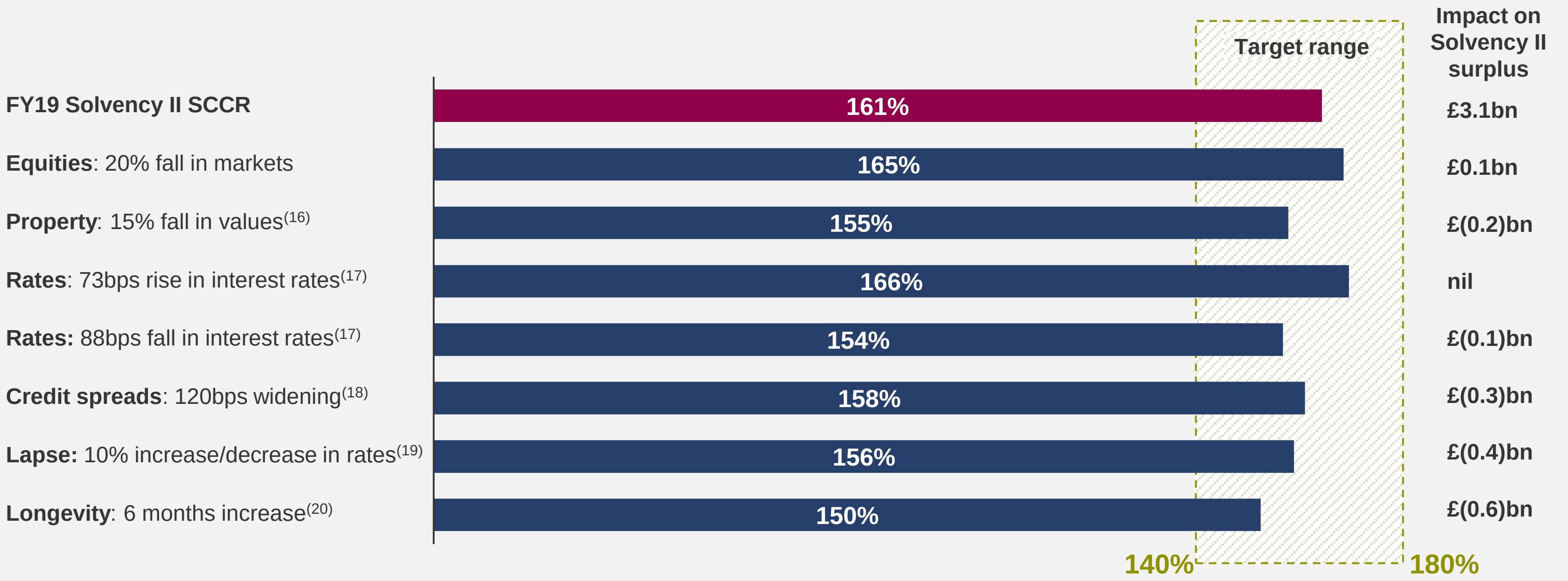

**Average rating A+**

## 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.

# Phoenix's capital position illustrates resilience to risk events

## PGH Solvency II Shareholder Capital Coverage Ratio sensitivities[15]




See Appendix XIX for footnotes

# Strong FY19 operating profit of £810 million

| | FY19 | FY18 |
|---|---|---|
| UK Heritage | £694m | £640m |
| UK Open | £73m | £41m |
| Europe | £52m | £22m |
| Service company | £26m | £25m |
| Group costs | £(35)m | £(20)m |
| **Operating profit before tax** | **£810m** | **£708m** |
| Investment return variances and economic assumption changes | £(164)m | £90m |
| Amortisation of intangibles | £(395)m | £(207)m |
| Other non-operating items | £(169)m | £(38)m |
| Finance costs | £(127)m | £(114)m |
| Profit before tax attributable to non-controlling interest | £31m | £31m |
| **(Loss)/profit before tax attributable to owners** | **£(14)m** | **£470m** |
| Tax credit/(charge) attributable to owners | £130m | £(60)m |
| **Profit after tax attributable to owners** | **£116m** | **£410m** |

## Key messages

Operating profit includes full year of Standard Life Assurance results

Investment returns reflect losses on equity hedges offset by management actions

Non-operating items driven by the provision of transition costs only partially offset by reduced expense assumptions

# Phoenix has delivered on its 2019 strategic priorities

1. FINANCIAL TARGETS
2. TRANSITION
3. CUSTOMER OUTCOMES
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# Phoenix has delivered 90% of its Standard Life Assurance capital synergy target and 44% of its cost synergy target

| | Delivered in 2019 | Delivered to date | Target | % of target | |
|---|---|---|---|---|---|
| 1 Capital synergies (net of costs) | £145m | £645m | £720m | 90% | ✓ |
| 2 Cost synergies[23] (per annum) | £19m | £33m | £75m | 44% | ✓ |
| 3 One-off cost synergies | £24m | £28m | £30m | 93% | ✓ |
| 4 Transition costs[23] (net of tax) | £12m | £15m | £150m | 10% | ✓ |

See Appendix XIX for footnotes

# Phase 1 is substantially complete with Phases 2 and 3 on track

| Phase | 1 Group functions | 2 Finance and Actuarial | 3 Customer and IT |
|---|---|---|---|
| Status | SUBSTANTIALLY COMPLETE | ON TRACK | ON TRACK |
| Key deliverables | End state operating model for Head Office functions delivered | Integrated multi-site operating model delivered by end 2020 | Hybrid Customer Service and IT operating model |
| | Harmonised HR system to be implemented in H1 2020 | Internal Model Harmonisation programme ongoing | Enlarged partnership with TCS and policy administration on TCS BaNCS platform |
| | Group functions ready for ReAssure integration | Targeting Harmonisation approval in Q1 2021 | Technology Hub in Edinburgh delivering excellence in customer service |

# Phoenix has delivered on its 2019 strategic priorities

1. FINANCIAL TARGETS
2. TRANSITION
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# We have exceeded all customer service metric targets

| Group customer service metrics | | | |
|---|---|---|---|
| | FY19 | FY19 target | |
| Phoenix Life customer satisfaction | 94% | ≥90% | ✓ |
| Standard Life customer service and accessibility (NetEasy) | 71% | ≥70% | ✓ |
| Servicing complaint closure within 3 days | 56% | ≥50% | ✓ |
| Servicing complaints (as a percentage of customer transactions) | 0.43% | <0.6% | ✓ |
| FOS overturn rate | 17% | <20% | ✓ |
| Speed of pension transfer pay-outs (ORIGO) | 9.69 | ≤12 | ✓ |

- Phoenix continues to exceed all customer service metric targets
- Improved performance across the majority of metrics from 2018
- Customer service metrics form 25% of the Group's Annual Incentive Plan corporate component

# Improving customer outcomes is central to our mission


### Increasing digitisation

- Over 12 million online logins by customers
- Over 5.5 million Standard Life mobile app sessions
- £560 million SLAL gross flows from online top-up and pension consolidation
- 40% of digitally enabled Phoenix Life transactions taking place online

### Enhancing proposition

- Launched passive default fund within Standard Life workplace proposition
- Leadership in Master Trust sector following scheme approval
- Introduced improved, harmonised annuity offering across the Group
- New variant of the offshore bond launched featuring capital redemption

### Customer initiatives

- Worked with leading behavioural science expert to enhance customer experience
- Removed exit charges for 160,000 pension customers
- Repatriated c. 4,300 of ‘lost’ policies with Phoenix Life customers
- Distributed  c. £250 million of with-profits estate to customers in 2019

# Rakesh Thakrar

Deputy Group Finance Director

PHOENIX GROUP

# Phoenix has delivered on its 2019 strategic priorities

1. FINANCIAL TARGETS
2. TRANSITION
3. CUSTOMER OUTCOMES
4. **NEW BUSINESS**
5. GROWTH

# 2019 new business increased long-term cash generation by £475 million enhancing dividend sustainability

| | FY19 | | | | FY18 |
|---|---|---|---|---|---|
| | UK Heritage | UK Open | Europe | Total | Total pro forma[9] |
| **Long-term cash generation** | **£235m** | **£214m** | **£26m** | **£475m** | **£530m** |
| Gross inflows (on new business) | £1.1bn | £6.0bn | £1.0bn | £8.1bn | £9.3bn |
| Capital strain | £98m | £13m | £18m | £129m | £137m |

## Key messages

1. New business delivered across all segments
2. Small capital strain financed from surplus capital generation
3. Cash generation from future new business is incremental to £12 billion guidance
4. Additional cash generation from new business c. 1.4x 2019 dividend

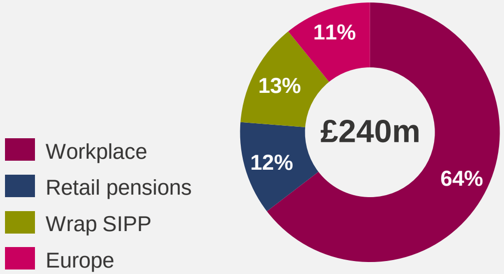
See Appendix XIX for footnotes

# New Open business in UK and Europe increased long-term cash generation by £240 million

| | FY19 | | | FY18 |
|---|---|---|---|---|
| | UK Open | Europe | Total | Total pro forma[9] |
| **Long-term cash generation** | **£214m** | **£26m** | **£240m** | **£280m** |
| Gross inflows (on new business) | £6.0bn | £1.0bn | £7.0bn | £8.5bn |
| New business contribution[10] | £153m | £5m | £158m | £154m |

## Long-term cash generation

at 31 Dec 2019




## Key messages

Workplace is the engine of growth for Open and benefitted from auto enrolment increase in the year which contributed £50 million to new business contribution and long-term cash generation

Challenging period for gross inflows across retail product lines and Wrap SIPP due to market uncertainty and a tail off in DB to DC transfers

See Appendix XIX for footnotes

# BPA deals in 2019 increased long-term cash generation by £235 million

| *UK Heritage* | FY19 | FY18 |
|---|---|---|
| **Long-term cash generation** | **£235m** | **£250m** |
| Premium | £1,131m | £799m |
| Day 1 capital allocation | £98m | £100m |
| Average payback[24] | 6-7 years | 9-10 years |

**BPA strategy**

- Selective and proportionate
- Funded from own resources
- Reinsurance of longevity risk
- Appropriate allocation to illiquid assets

**2019 activity**

- Priced 27 transactions
- 4 BPA deals completed
- c. 5% share of £40 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

See Appendix XIX for footnotes

# Phoenix has delivered on its 2019 strategic priorities

1 FINANCIAL TARGETS

2 TRANSITION

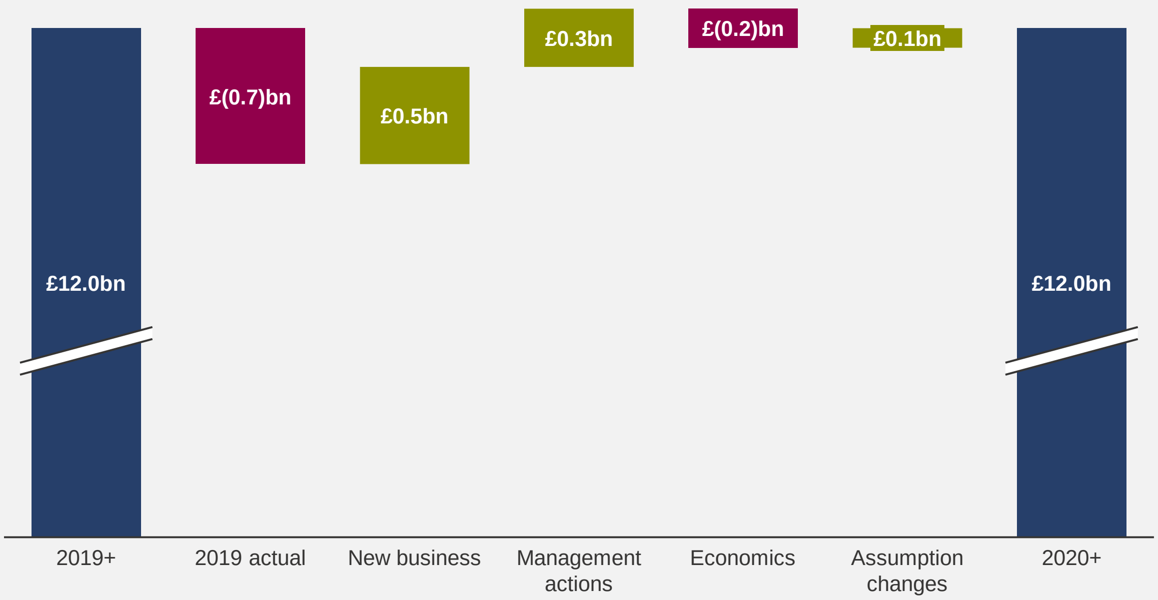
3 CUSTOMER OUTCOMES

4 NEW BUSINESS

5 GROWTH

# Growth through new business brings sustainability to cash generation

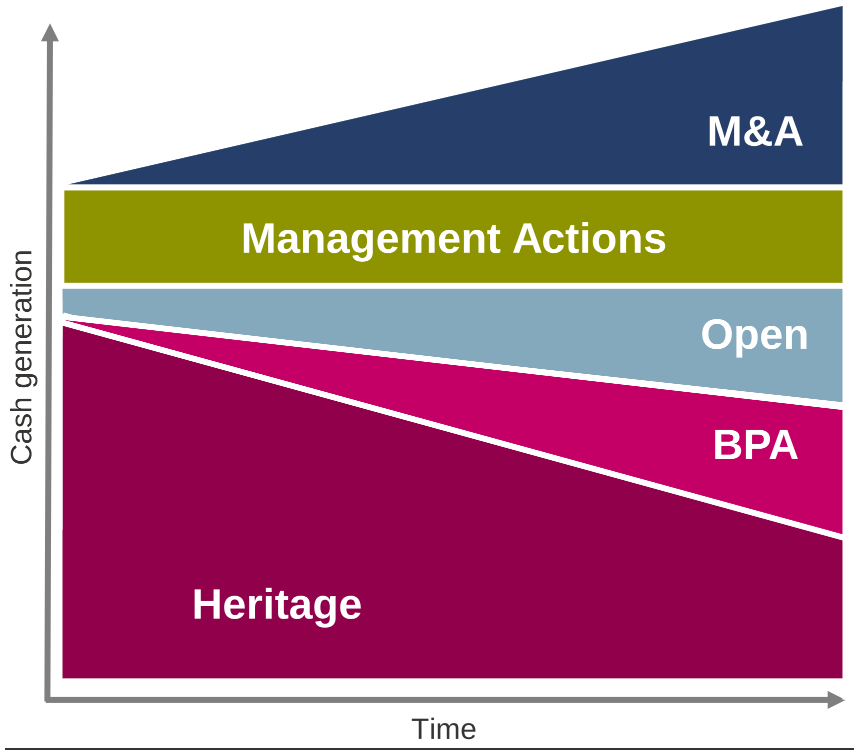
## Future cash generation from in-force business




## Key messages

- £0.5 billion incremental long-term cash generation from new business
- £0.3 billion from over-delivery of management actions in 2019
- Small negative impact from changing economics post transitionals
- Assumption changes includes £120 million longevity release

# The “Wedge” illustrates the range of growth opportunities available to bring sustainability to cash generation

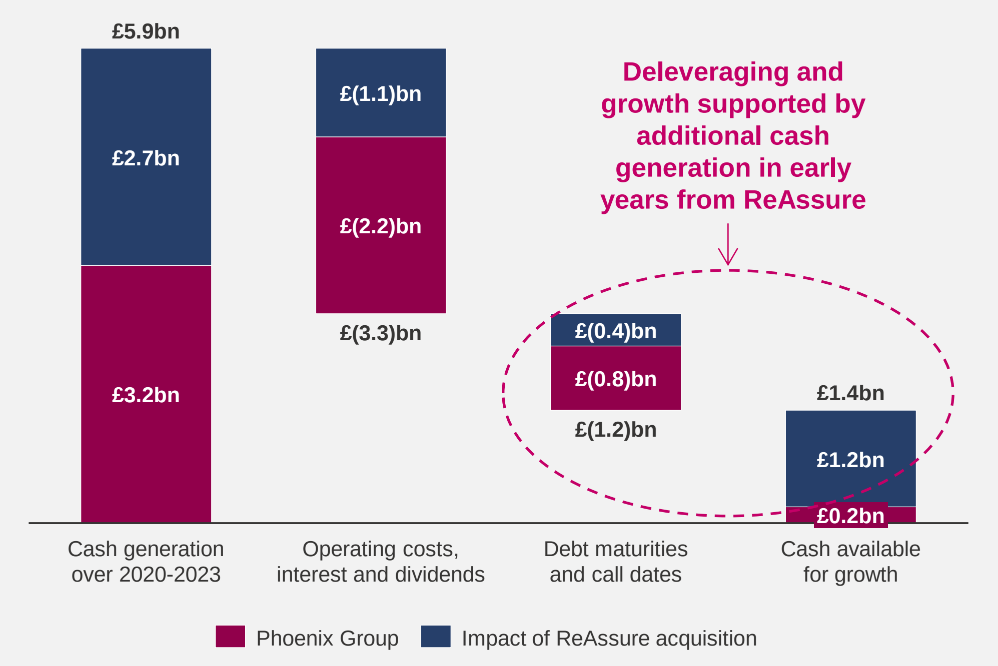



**Key messages**

- Heritage business generates predictable long-term cash generation to pay dividends and fund growth
- BPA delivers dependable growth
- Growth of Open business in UK and Europe brings sustainability to cash generation
- Sustainable cash generation brings confidence to the dividend in the long-term without further M&A

# ReAssure generates surplus cash to support our range of growth options

## Sources and uses of cash generation

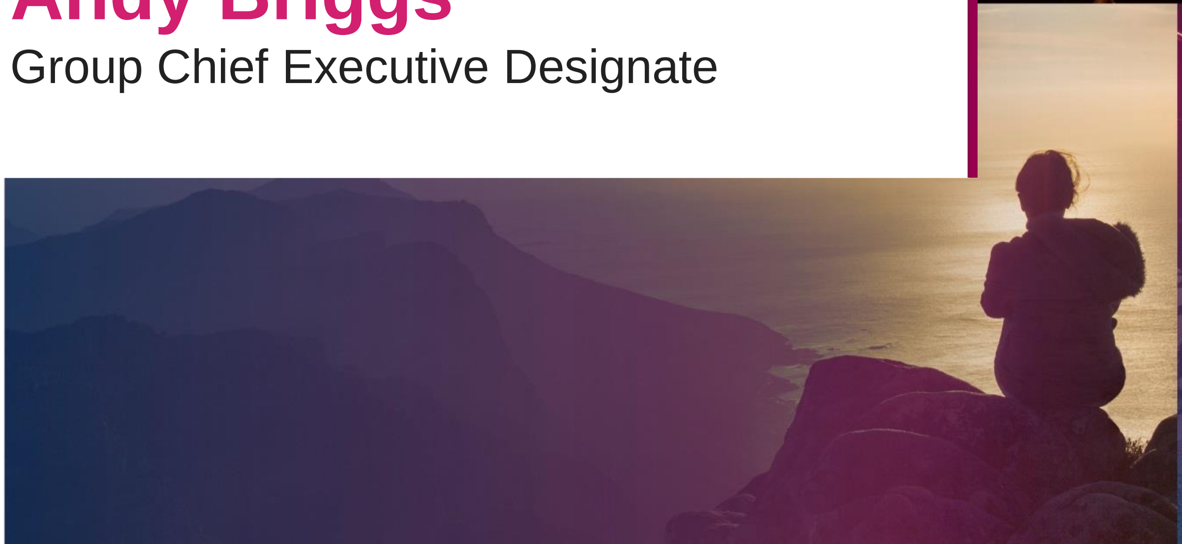



## Growth options

| | |
|---|---|
| **Heritage business** | Reducing the run off rate through investment in customer initiatives and management actions |
| **BPA** | Capital allocation to BPA |
| **Open business** | "Capital light" new business with investment in the customer proposition |
| **M&A** | Funding of deals that meet our acquisition criteria |

# Andy Briggs

Group Chief Executive Designate



# What attracted me to Phoenix?

| A CLEAR STRATEGY | |
|---|---|
| **Heritage** | Manage in-force business for cash and resilience and deliver customer outcomes |
| **M&A and integration** | Complete value accretive M&A, accessing synergies through integration |
| **Open** | Grow through new business in Open and BPA |

| A SIMPLE FRAMEWORK | |
|---|---|
| ✓ | "Cash is King" and the sustainability of the dividend is paramount |
| ✓ | Underpinned by a strong, diversified, resilient balance sheet |
| ✓ | Long term cash progression giving confidence for the future |

**EVOLUTION, NOT REVOLUTION**

# Phoenix is well placed to take advantage of the industry drivers of change

| | Insurers are consolidating | Corporates are de-risking | Strong DC pension growth |
|---|---|---|---|
| **Drivers of change** | • Trapped capital<br>• Cost inefficiencies<br>• Legacy systems<br>• Regulatory change | • De-risking strategies well advanced<br>• Buy ins and buy outs increasingly affordable | • Auto-enrolment<br>• Shift from DB<br>• Ageing population<br>• Pension freedoms |
| **Market opportunities** | **>£600 billion opportunity** | **£40 billion per annum opportunity, and growing** | **£24 billion DC contributions per annum, tripled from 2012** |
| **Phoenix's advantages** | ✓ Differentiated capability in Heritage management<br>✓ Differentiated capability in M&A and integration delivery | ✓ Annuities only c. 10% of UK balance sheet<br>✓ Better diversification as a result | ✓ Largest UK life and pensions provider<br>✓ Top 3 Workplace pension provider<br>✓ Market leading TCS partnership |

# Phoenix has a clear set of strategic priorities for 2020

| | |
|---|---|
| **Financial targets** | Deliver the 2020 cash generation target of £800-£900 million, underpinned by a strong solvency position and investment grade rating |
| **Transition Standard Life Assurance** | Complete Phase 2 and progress Phase 3 of the transition programme to deliver £1.2 billion cost and capital synergy target |
| **Complete and integrate ReAssure** | Complete acquisition and start delivery of £0.8 billion cost and capital synergy target |
| **New business** | Profitably grow the Open business and continue to selectively participate in BPA |
| **Investing in people** | Continue to build on our strong team, with market leading capabilities |

# Nicholas Lyons

Chairman

# Phoenix – Cash, Resilience, Growth

- 2019 was an exceptional year, in which we delivered Cash, Resilience and Growth
- Acquisition of ReAssure confirms Phoenix as Europe’s largest life and pensions consolidator
- Focused on delivering significant value from in-force business over many years
- Phoenix is well placed to take advantage of the opportunities within a changing sector
- New Open business and BPA will build growth on top of Phoenix’s Heritage foundations

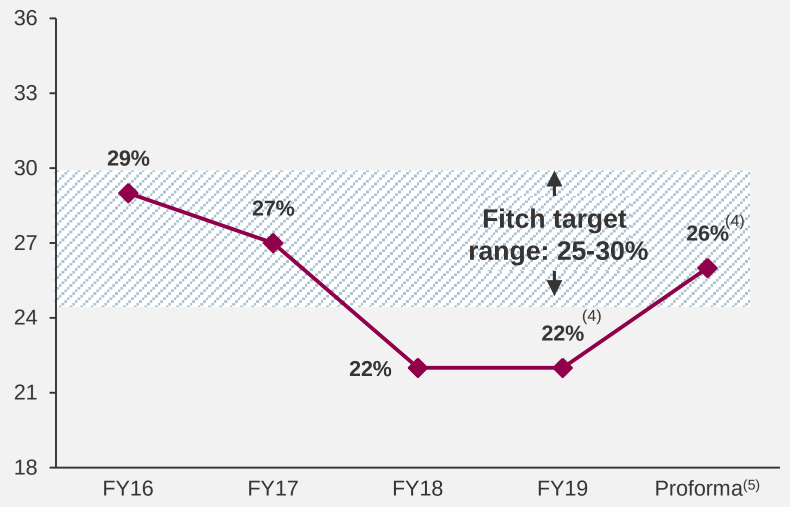
# Q&A

# Appendices



# Appendix I: Leverage ratio

## Fitch leverage ratio[1]




## FY19 leverage ratios

| | |
|---|---|
| Fitch basis[1] | 22% |
| IFRS basis[2] | 34% |
| SII leverage[3] | 19% |

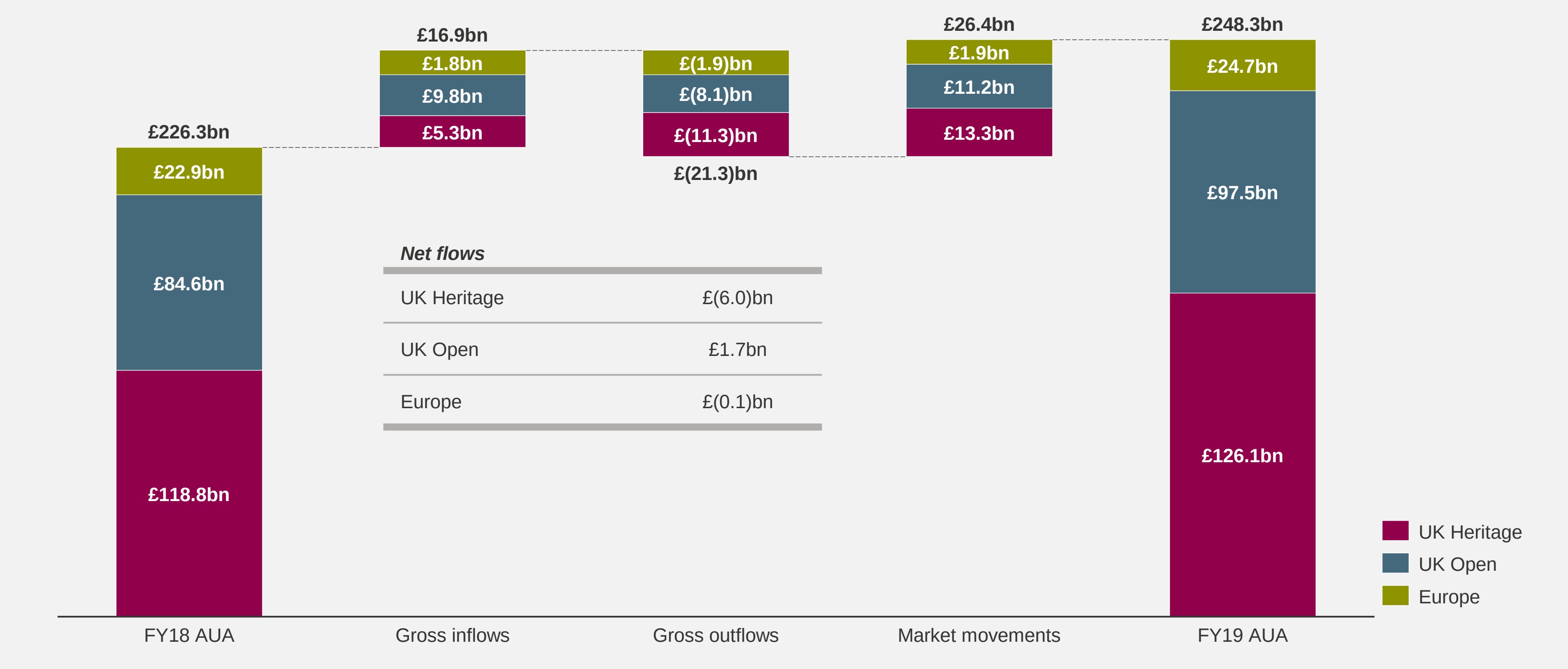
- IFRS leverage ratio classifies RT1 as debt

## Funding capacity

- Our funding capacity is driven by a combination of own cash, leverage capacity and our target solvency range
- We estimate a funding capacity for inorganic growth as at FY20 of c. £1 billion

(1) The Fitch leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1)
(2) IFRS leverage calculation = debt (all debt including RT1) / debt + equity (Shareholder equity only)
(3) SII leverage calculation = debt (all debt including RT1) / SII regulatory own funds
(4) Phoenix calculated
(5) Pro forma leverage of Combined Group adjusted to reflect $750m RT1 raise

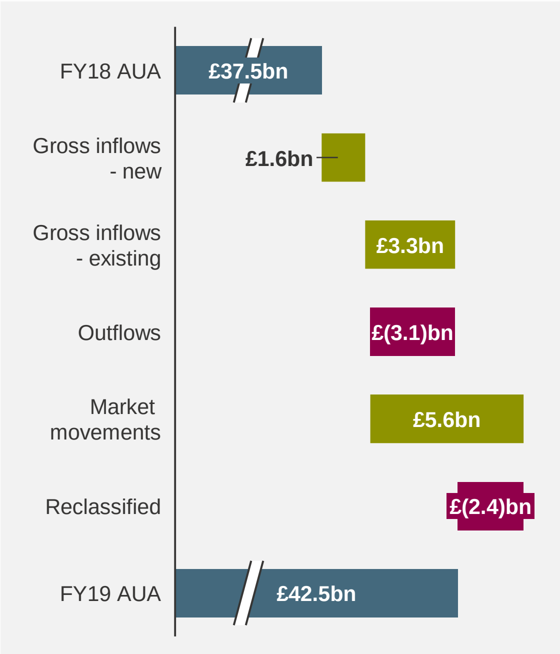
# Appendix II: Movement in assets under administration



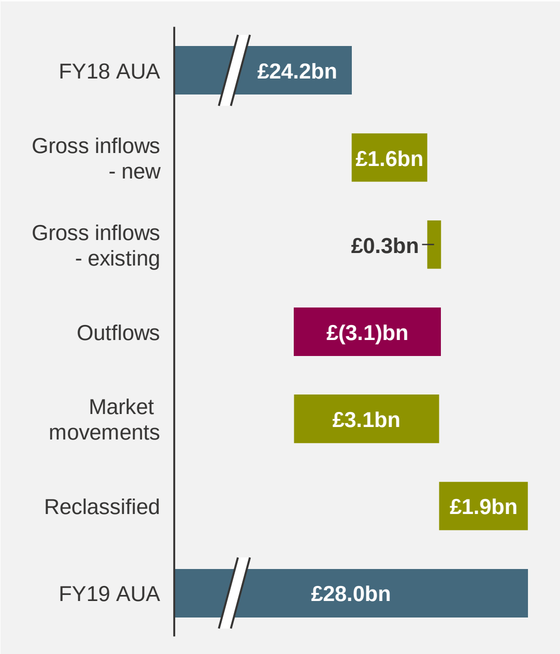

| *Net flows* | |
|---|---|
| UK Heritage | £(6.0)bn |
| UK Open | £1.7bn |
| Europe | £(0.1)bn |

# Appendix III: UK Open – movement in AUA by product type

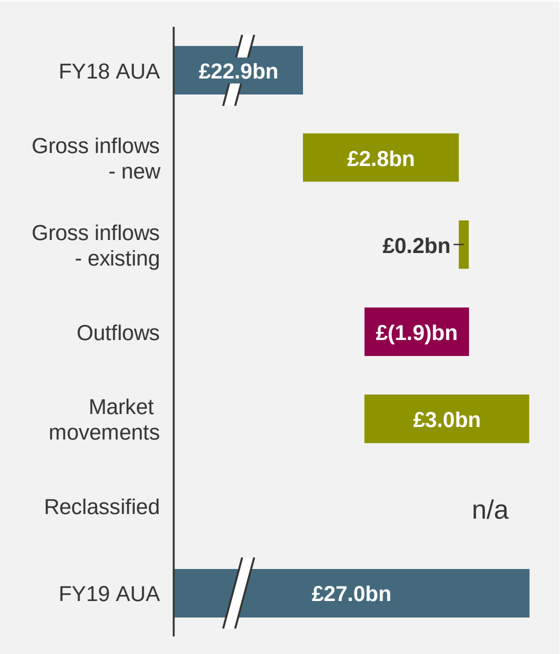
## Workplace




## Retail




## Wrap SIPP



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

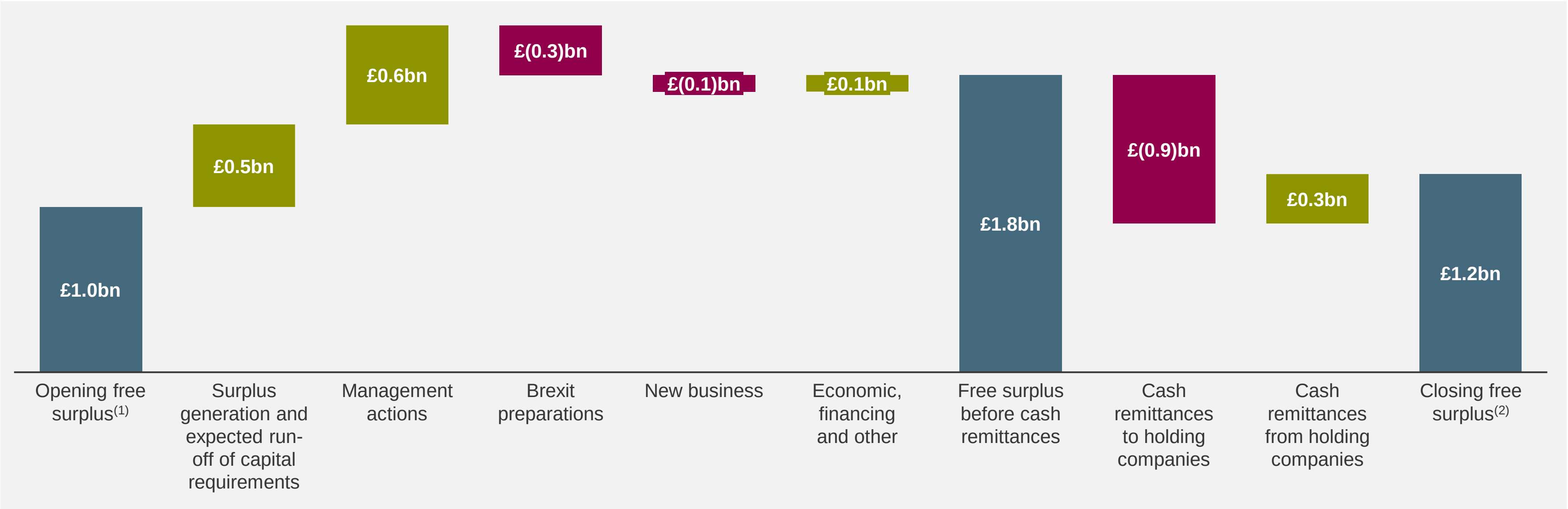
| *£m* | FY19 | FY18 |
|---|---|---|
| **Opening cash and cash equivalents** | **346** | **535** |
| **Total cash receipts** | **707** | **664** |
| **Uses of cash** | | |
| Operating expenses | (43) | (32) |
| Pension scheme contributions | (50) | (49) |
| Non-operating cash outflows | (137) | (216) |
| Debt interest | (112) | (88) |
| Shareholder dividend | (338) | (262) |
| **Total cash outflows** | **(680)** | **(647)** |
| Equity and debt raisings (net of fees) | - | 1,866 |
| Cost of acquisitions | - | (1,971) |
| Support BPA activity | (98) | (101) |
| **Closing cash and cash equivalents** | **275** | **346** |

Non-operating net cash outflows include:

- £(60) million of recharged staff costs and Group expenses on corporate projects including £(12) million of external costs for the Standard Life Assurance transition;
- £(38) million from the close out of hedging instruments at Group level;
- £(9) million of cash relating to the acquisition of ReAssure; and
- £(7) million costs associated with hedging ReAssure equity exposure from announcement

# Appendix V: Change in Life Company Free Surplus

## Change in life company free surplus in 2019

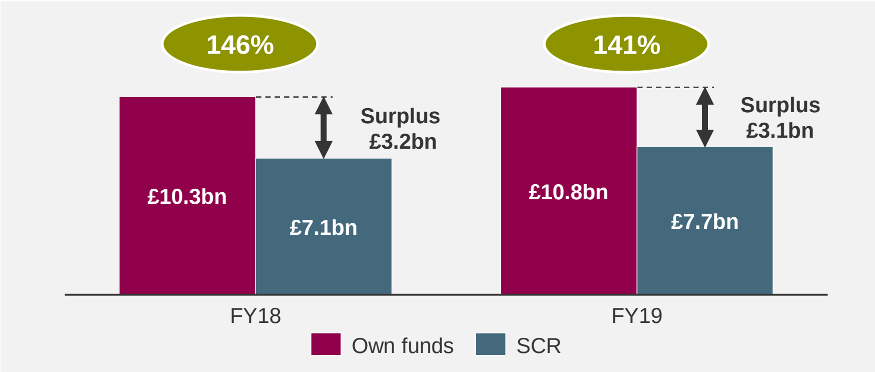



(1) The opening Life Company Free Surplus reflects the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Life Company Free Surplus would increase by £0.1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

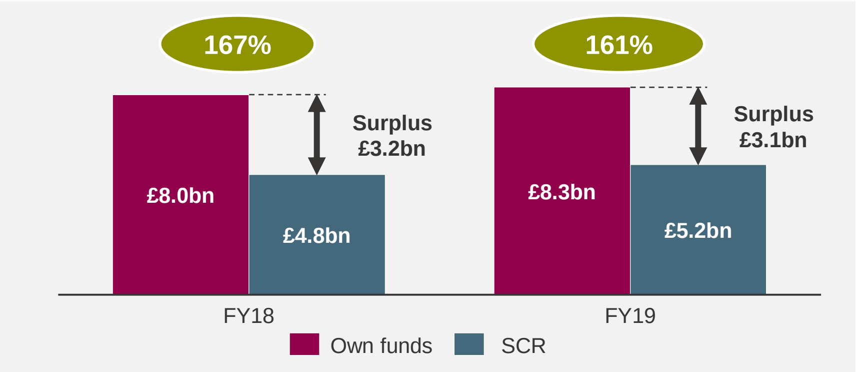
(2) The closing Life Company Free Surplus is an estimated position and reflects the impact of a regulator approved recalculation of transitionals as at 31 December 2019.

# Appendix VI: Estimated PGH Solvency II surplus and coverage ratios

## PGH Solvency II coverage ratio[1]




## PGH Shareholder capital coverage ratio[1,2]

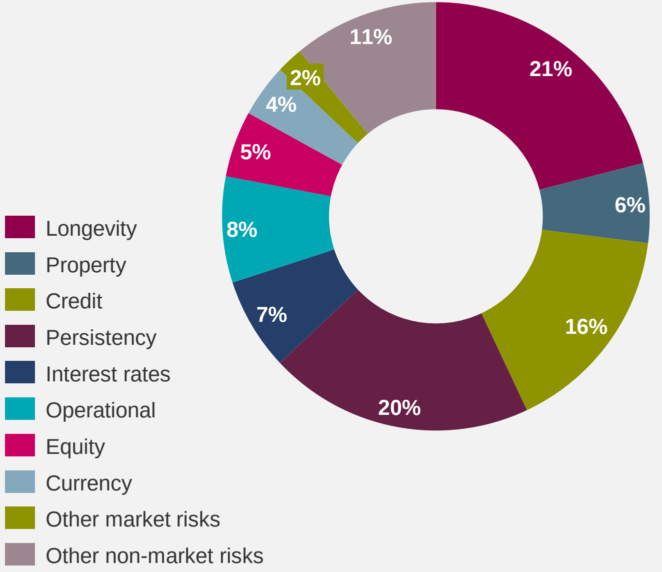



| £bn | FY19 | FY18 |
|---|---|---|
| PGH Solvency II own funds | 10.8 | 10.3 |
| Less: Unsupported with-profit funds | (2.0) | (1.9) |
| Less: PGL and Pearl pension schemes | (0.5) | (0.4) |
| PGH Shareholder own funds | 8.3 | 8.0 |

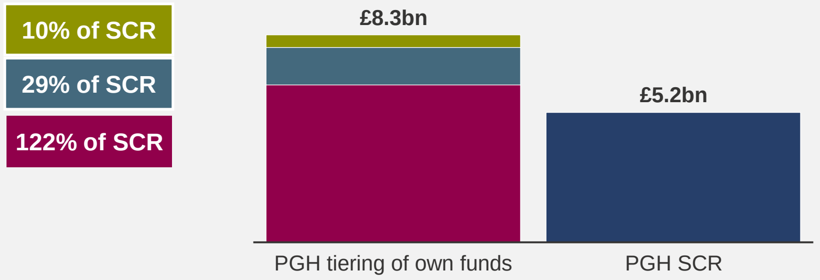
See Appendix XIX for footnotes

# Appendix VII: Estimated shareholder SCR by risk type and PGH own funds tiering

## Estimated FY19 SCR by risk type[1]




## FY19 PGH own funds by capital tier[2]




## Share of SII own funds by capital tier

| Own funds | £bn | % |
|---|---|---|
| Tier 1[3] | 6.3 | 76 |
| Tier 2 | 1.5 | 18 |
| Tier 3 | 0.5 | 6 |
| **Total** | **8.3** | **100** |

(1) Split of SCR pre diversification benefits and on a Shareholder Capital basis.
(2) The Solvency II capital position is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2019.
(3) Tier 1 includes £0.5 billion of Restricted Tier 1 capital.

# Appendix VIII: Regulatory Capital Coverage Ratio sensitivities

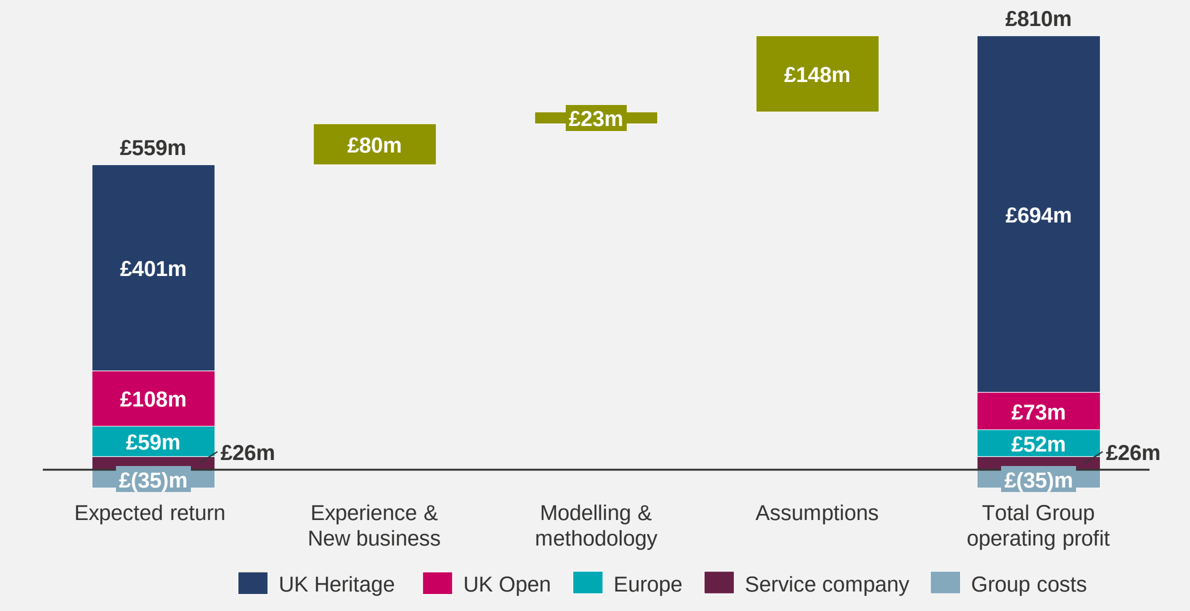
## PGH Solvency II Regulatory Capital Coverage Ratio (RCR) sensitivities[15]

| | RCR | Impact on Solvency II surplus |
|---|---|---|
| **FY19 Solvency II RCR** | 141% | £3.1bn |
| **Equities**: 20% fall in markets | 142% | £0.1bn |
| **Property**: 15% fall in values[16] | 136% | £(0.2)bn |
| **Rates**: 73bps rise in interest rates[17] | 143% | nil |
| **Rates:** 88bps fall in interest rates[17] | 136% | £(0.1)bn |
| **Credit spreads**: 120bps widening[18] | 137% | £(0.3)bn |
| **Lapse:** 10% increase/decrease in rates[19] | 136% | £(0.4)bn |
| **Longevity**: 6 months increase[20] | 133% | £(0.6)bn |

See Appendix XIX for footnotes

# Appendix IX: Operating profit analysis

## 2019 operating profit drivers




## Key messages

- New business profits and favourable longevity experience offset adverse short-term expense variances
- Model & methodology changes includes removal of manual reserves and replacement of modelled solutions
- Assumption changes include c. £190 million benefit from updating longevity assumptions

**Operating earnings per share(1)** **89.8p**

(1) Operating earnings per share is calculated using operating profit after tax divided by the weighted average number of ordinary shares in issue during the year.

# Appendix X: UK Heritage business operating profit drivers

| | | FY19 | | | FY18 | | |
|---|---|---|---|---|---|---|---|
| | | Reported operating profit | Closing liability/ equity(2) | Expected return margin(1) | Reported operating profit | Closing liability/ equity(2) | Expected return margin(1) |
| **Fund type** | **How profits are generated** | £m | £bn | bps | £m | £bn | bps |
| With-profit | Our share of bonuses paid to policyholders of with-profit business | 126 | 37.2 | 37 | 104 | 37.2 | 36 |
| With-profit (internal capital support) | Return on with-profit funds which are supported with capital from shareholder funds | 18 | 4.2 | nm | 20 | 4.3 | nm |
| Unit linked | Margin earned on unit linked business | 164 | 44.4 | 39 | 168 | 41.8 | 37 |
| Annuities | Spread earned on annuities | 392 | 17.9(3) | 40 | 317 | 15.9(3) | 43 |
| Protection and other non-profit | Investment return and release of margins | 11 | 0.5 | nm(4) | 16 | 0.5 | nm(4) |
| Shareholder funds | Return earned on shareholder fund assets | (17) | 2.6 | nm | 15 | 2.4 | 118 |
| **Total** | | **694** | **106.8** | | **640** | **102.1** | |

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

(2) Net of reinsurance

(3) Includes insurance liabilities subject to longevity swap arrangements

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

# Appendix XI: Asset mix of life companies

| At 31 December 2019<br>£m | Total shareholder, non-profit and supported with-profits[2] | Policyholder funds[3] | | | Total assets[1] |
|---|---|---|---|---|---|
| | | Non-supported with-profits funds | Unit-linked | Total policyholder | |
| Cash deposits | 5,495 | 4,788 | 6,391 | 11,179 | 16,674 |
| Debt securities | | | | | |
| Debt securities – gilts | 4,244 | 14,167 | 4,870 | 19,037 | 23,281 |
| Debt securities – bonds | 15,626 | 24,174 | 30,242 | 54,416 | 70,042 |
| **Total debt securities** | **19,870** | **38,341** | **35,112** | **73,453** | **93,323** |
| Equity securities | 193 | 15,962 | 72,959 | 88,921 | 89,114 |
| Property investments | 129 | 1,890 | 5,335 | 7,225 | 7,354 |
| Other investments[4] | 3,894 | 3,738 | 9,897 | 13,635 | 17,529 |
| **Total** | **29,581** | **64,719** | **129,694** | **194,413** | **223,994** |

(1) The analysis of the asset portfolio comprises assets held by the Group's life companies. It excludes other Group assets such as cash held in holding companies and service companies, and is net of derivative liabilities. This information is presented on a look through basis to underlying holdings where available.

(2) Includes assets where shareholders of the life companies bear the investment risk.

(3) Includes assets where policyholders bear most of the investment risk.

(4) Includes equity release mortgages of £2,781 million, commercial real estate loans of £388 million, income strips of £690 million, policy loans of £10 million, other loans of £284 million, net derivative assets of £3,976 million, reinsurers' share of investment contracts of £8,881 million and other investments of £519 million.

# Appendix XII: Total debt exposure by country

| At 31 December 2019 £m | Sovereign and Supranational | | Corporate: Financial Institutions | | Corporate: Other | | Asset Backed Securities | | Total debt securities | | Total debt | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | Shareholder | Policyholder | £m | % |
| UK | 4,837 | 19,309 | 3,222 | 5,146 | 2,798 | 5,782 | 767 | 617 | 11,624 | 30,854 | 42,478 | 46 |
| Supranationals | 617 | 361 | - | - | - | - | - | - | 617 | 361 | 978 | 1 |
| USA | 3 | 1,911 | 926 | 1,879 | 854 | 3,630 | - | 5 | 1,783 | 7,425 | 9,208 | 10 |
| Germany | 209 | 3,721 | 143 | 971 | 468 | 1,369 | 21 | - | 841 | 6,061 | 6,902 | 8 |
| France | 92 | 3,009 | 246 | 2,056 | 591 | 1,448 | 35 | 12 | 964 | 6,525 | 7,489 | 8 |
| Netherlands | 40 | 519 | 428 | 586 | 103 | 337 | 66 | 31 | 637 | 1,473 | 2,110 | 2 |
| Portugal | - | - | - | 14 | - | - | - | - | - | 14 | 14 | - |
| Italy | - | 550 | 30 | 79 | 113 | 274 | - | 11 | 143 | 914 | 1,057 | 1 |
| Ireland | - | - | - | 44 | 11 | 66 | 27 | 41 | 38 | 151 | 189 | - |
| Luxembourg | - | - | - | 49 | - | 89 | 49 | 17 | 49 | 155 | 204 | - |
| Belgium | 6 | 872 | 15 | 16 | 115 | 248 | - | - | 136 | 1,136 | 1,272 | 2 |
| Spain | - | 380 | 64 | 367 | 85 | 213 | 8 | - | 157 | 960 | 1,117 | 1 |
| Greece | - | 47 | - | - | - | - | - | - | - | 47 | 47 | - |
| Other - non Eurozone[2] | 243 | 5,861 | 1,259 | 4,822 | 728 | 3,005 | 30 | 53 | 2,260 | 13,741 | 16,001 | 17 |
| Other – Eurozone | 45 | 963 | 111 | 474 | 464 | 89 | 1 | - | 621 | 1,526 | 2,147 | 2 |
| Indirectly held debt securities[3] | - | - | - | - | - | 2,110 | - | - | - | 2,110 | 2,110 | 2 |
| **Total debt exposure** | **6,092** | **37,503** | **6,444** | **16,503** | **6,330** | **18,660** | **1,004** | **787** | **19,870** | **73,453** | **93,323** | **100** |
| **of which Peripheral Eurozone** | **-** | **977** | **94** | **504** | **209** | **553** | **35** | **52** | **338** | **2,086** | **2,424** | **3** |
| **At 31 December 2018 £m (RESTATED)** | | | | | | | | | | | | |
| **Total debt exposure** | **5,218** | **40,651** | **5,850** | **17,979** | **5,833** | **13,979** | **1,074** | **746** | **17,975** | **73,355** | **91,330** | **100** |
| **of which Peripheral Eurozone** | **46** | **542** | **87** | **460** | **228** | **408** | **45** | **39** | **406** | **1,449** | **1,855** | **2** |

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

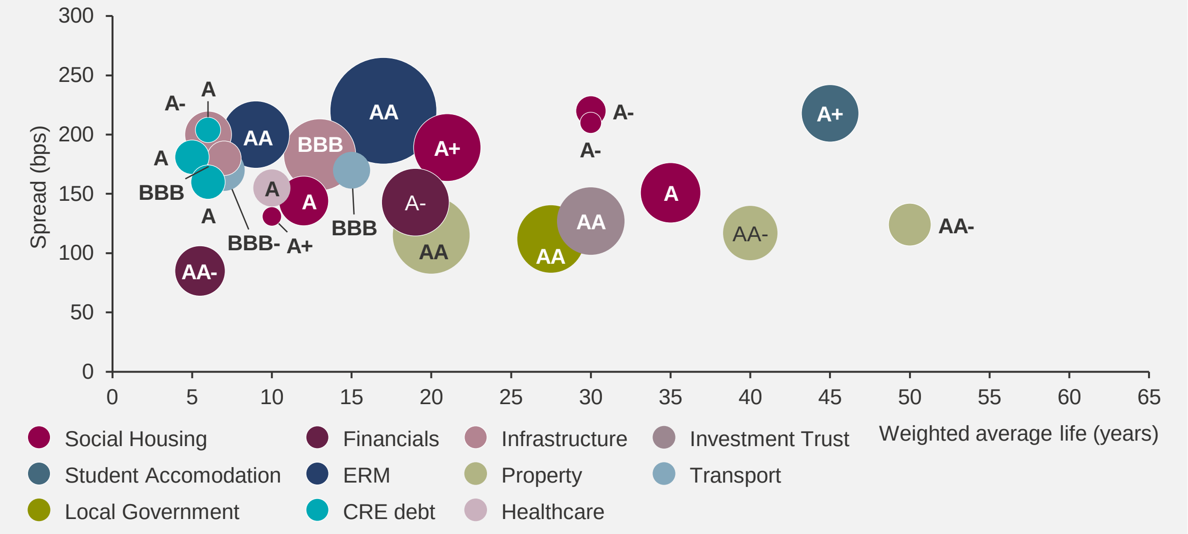
# Appendix XIII: Credit rating analysis of debt portfolio

| At 31 December 2019 | Total shareholder, non-profit and supported with-profits | | Policyholder funds: Non-supported with-profits funds | | Policyholder funds: Unit-linked | | Total policyholder | | Total assets | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % | £m | % |
| AAA | 2,188 | 11 | 5,820 | 15 | 3,322 | 10 | 9,142 | 12 | 11,330 | 12 |
| AA | 7,654 | 39 | 20,578 | 54 | 7,354 | 21 | 27,932 | 38 | 35,586 | 38 |
| A | 6,850 | 34 | 6,188 | 16 | 6,103 | 17 | 12,291 | 17 | 19,141 | 21 |
| BBB | 2,798 | 14 | 4,734 | 12 | 5,758 | 16 | 10,492 | 14 | 13,290 | 14 |
| BB | - | - | 221 | 1 | 1,139 | 3 | 1,360 | 2 | 1,360 | 2 |
| B and below | 30 | - | 413 | 1 | 902 | 3 | 1,315 | 2 | 1,345 | 1 |
| Non-rated | 350 | 2 | 387 | 1 | 1,854 | 5 | 2,241 | 3 | 2,591 | 3 |
| Indirectly held debt securities(1) | - | - | - | - | 8,680 | 25 | 8,680 | 12 | 8,680 | 9 |
| **Total** | **19,870** | **100** | **38,341** | **100** | **35,112** | **100** | **73,453** | **100** | **93,323** | **100** |

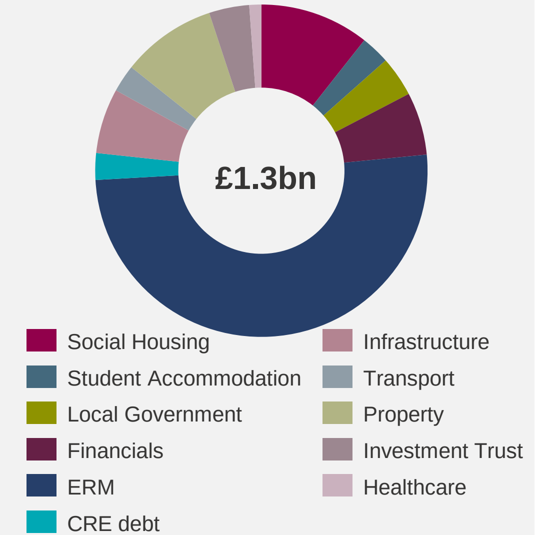
(1) Comprises debt securities held in collective investment schemes, for which look-through information on credit ratings is not available.

# Appendix XIV: 2019 illiquid asset origination

## 2019 origination focused on longer maturities at attractive spreads




## Diversified portfolio



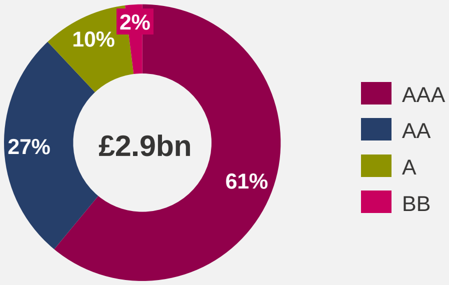

**Key statistics:**

- **£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 XV: Illiquids assets: Equity Release Mortgage portfolio

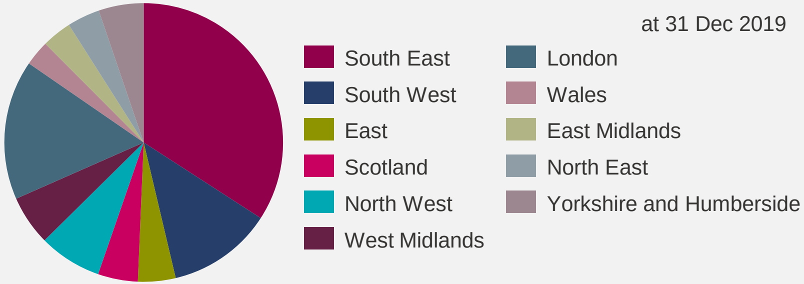
## Credit rating determined through securitisation

at 31 Dec 2019




## Regional distribution

at 31 Dec 2019

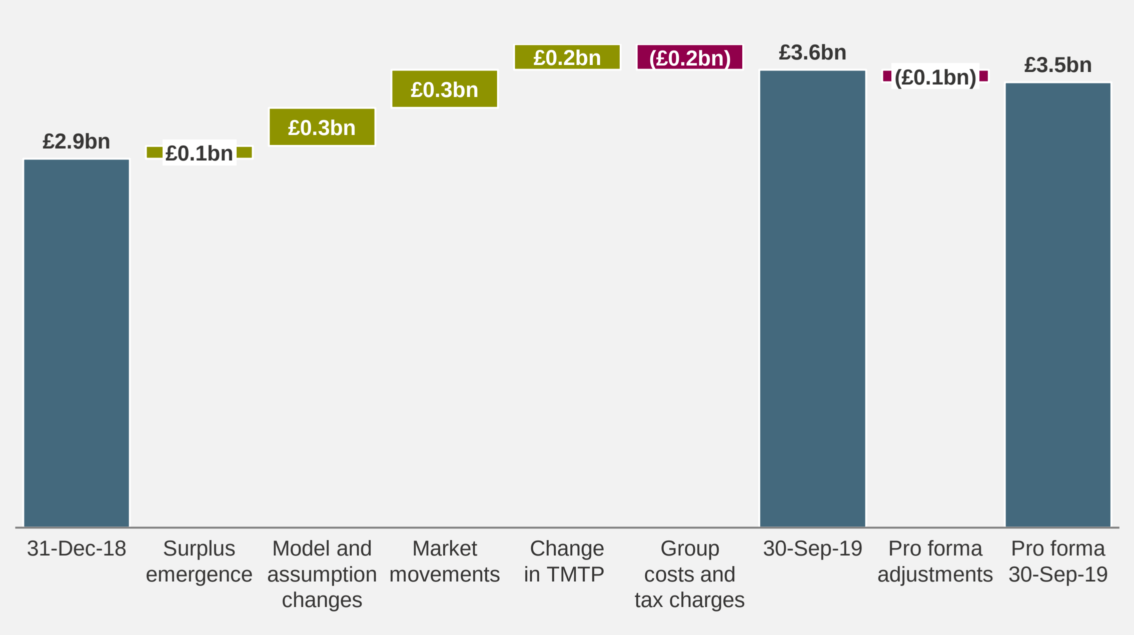



## Key portfolio statistics

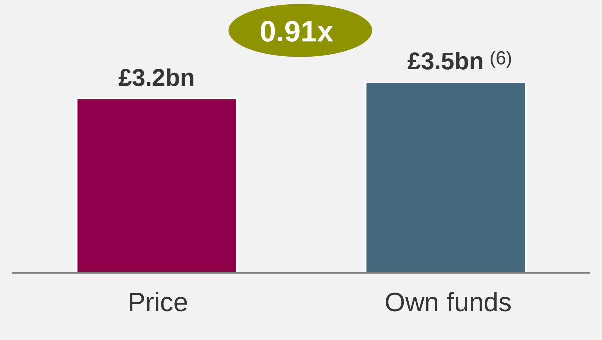
| | Average LTV | Average age | Average time to redemption |
|---|---|---|---|
| Current portfolio | 34% | 77 years | 12 years |
| 2019 origination | 28-30% | 71 years | 16 years |

# Appendix XVI: ReAssure pro-forma shareholder own funds

## ReAssure pro-forma shareholder own funds(6)



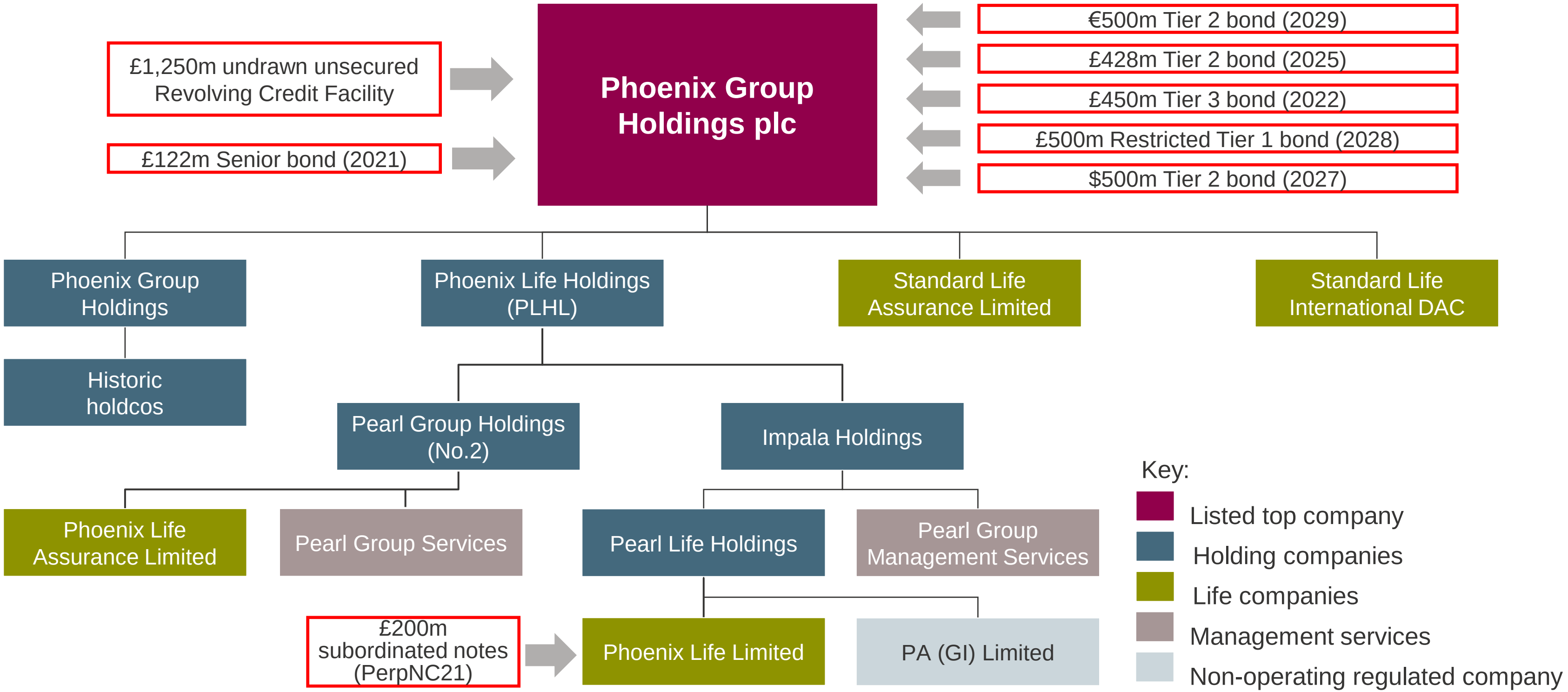

## Price to own funds ratio




- ReAssure completed the acquisition of the OMW business on 31 December 2019, accessing £200 million of synergies
- Reduces price to own funds ratio by 4% to 87%

See Appendix XIX for footnotes

# Appendix XVII: Corporate structure as at 31 December 2019

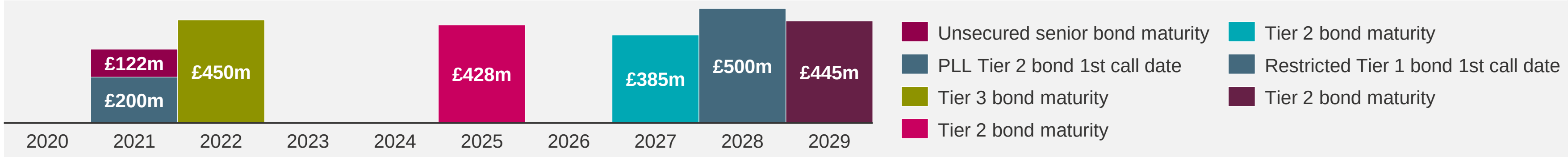


# Appendix XVIII: Outline of debt structure as at 31 December 2019

## Structure of £2,530 million of outstanding debt as at 31 December 2019

| | Instrument | Issuer / Borrower | Maturity | Drawn amount / Face value |
|---|---|---|---|---|
| Bank Debt | £1,250m unsecured Revolving Credit Facility ("RCF") | Phoenix Group Holdings plc | June 2024 | - |
| Bonds | Subordinated Tier 2 bond (7.250% Perpetual NC2021, XS0133173137) | Phoenix Life Limited | March 2021 (first call date) | £200m |
| | Unsecured Senior bond (5.750% due Jul-2021, XS1081768738) | Phoenix Group Holdings plc | July 2021 | £122m |
| | Subordinated Tier 3 bond (4.125% due Jul-2022, XS1551285007) | Phoenix Group Holdings plc | July 2022 | £450m |
| | Subordinated Tier 2 bond (6.625% due Dec-2025, XS1171593293) | Phoenix Group Holdings plc | December 2025 | £428m |
| | Subordinated Tier 2 bond(1) (5.375% due Jul-2027, XS1639849204) | Phoenix Group Holdings plc | July 2027 | $500m(1) |
| | Restricted Tier 1 bond (5.750% Perpetual NC2028, XS1802140894) | Phoenix Group Holdings plc | April 2028 (first call date) | £500m |
| | Subordinated Tier 2 bond(2) (4.375% due Jan-2029, XS1881005117) | Phoenix Group Holdings plc | January 2029 | €500m(2) |

## Debt maturity profile as at 31 December 2019




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

# Appendix XIX: Footnotes

(1) The Solvency II capital position is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2019.
(2) The 2019 Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and the PGL and Pearl Pension Schemes.
(3) Incremental cash generation arising from the acquisition of ReAssure is calculated using Phoenix's assumptions and reporting bases.
(4) ReAssure's assets under administration as at 30 September 2019 assume completion of the Part VII transfer of the mature savings business of the L&G Group and completion of the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc which completed on 31 December 2019.
(5) ReAssure's number of policies as at 1 November 2019 assume completion of the Part VII transfer of the mature savings business of the L&G Group and completion of the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc which completed on 31 December 2019.
(6) ReAssure's Solvency II Own Funds as at 30 September 2019 have been derived from ReAssure Solvency II figures and have been adjusted to be presented on a shareholder basis, excluding debt and assuming a dynamic recalculation of transitionals (subject to PRA approval), and including the pro forma impact of the Part VII of the mature savings business of the L&G Group Business and the acquisition of Old Mutual Wealth Life Assurance Limited (both based on financial information as at 31 December 2018).
(7) Inherited cost base of ReAssure comprises an addressable cost base of £193 million and £125 million of project costs.
(8) Dividends rebased to take into account the bonus element of rights issues. 2020e and 2021e reflect expected dividend based on application of proposed 3% increase announced for ReAssure transaction.
(9) The pro forma assumes that the acquisition of the Standard Life Assurance businesses took place on 1 January 2018.
(10) "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.
(11) The 31 December 2018 Solvency II capital position includes the impact of a regulator approved recalculation of transitionals for Standard Life Assurance Limited only. Had a dynamic recalculation of transitionals been assumed for the Phoenix Life companies, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.1 billion and 3% respectively.
(12) Illustrative combined group operating expenses of £45 million p.a. over 2020 to 2023. Phoenix pension scheme contributions estimated in line with current funding agreements, comprising £70 million in respect of the Pearl Scheme and £39 million in respect of the Abbey Life Scheme. Assumes integration costs of c. £200 million net of tax, split c. £150 million on Standard Life integration and c. £50 million on Reassure integration.
(13) Includes interest on the combined Group's listed debt and senior debt, but excludes interest on the PLL Tier 2 bond which is incurred directly by Phoenix Life Limited.
(14) Illustrative dividend allowing for the issue of equity and 3% increase.
(15) Scenario assumes stress occurs on 1 January 2020.

# Appendix XIX: Footnotes (continued)

(16) Property stress represents an overall average fall in property values of 15%.
(17) Assumes recalculation of transitionals (subject to PRA approval).
(18) Credit stress equivalent to an average 120bps spread widening across ratings and includes an allowance for defaults/downgrades.
(19) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
(20) Applied to the annuity portfolio.
(21) New business strain comprises BPA £(98)million, vesting annuities £(20)million, UK Open business £(13)million and European business £(18)million.
(22) Represents the net impact of management actions on the Group SCR.
(23) Cost synergies delivered to date reflect actual reduction in underlying cost base. Transition costs incurred to date excludes amounts provided for and reflects actual costs incurred to date.
(24) Average payback is stated excluding capital management policy.

# Disclaimer and other information

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