Phoenix Group Full Year 2020 Results

8 March 2021

Agenda

2020 review — **Andy Briggs**, Group Chief Executive Officer

2020 financial results — **Rakesh Thakrar**, Group Chief Financial Officer

Outlook — **Andy Briggs**, Group Chief Executive Officer

Q&A
- **Andy Briggs,** Group Chief Executive Officer
- **Rakesh Thakrar,** Group Chief Financial Officer
- **Andy Moss,** Heritage Chief Executive Officer
- **Andy Curran,** CEO, Savings & Retirement UK & Europe
- **Mike Eakins,** Chief Investment Officer

Good morning everybody, and welcome to Phoenix Group's full year results presentation.

I hope you are all keeping well during these challenging times.

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

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

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

So, turning to the opening slide…

2020 review

Andy Briggs

Group Chief Executive Officer

2020 was a landmark year for Phoenix, with a number of significant achievements, delivered in a uniquely challenging environment.

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

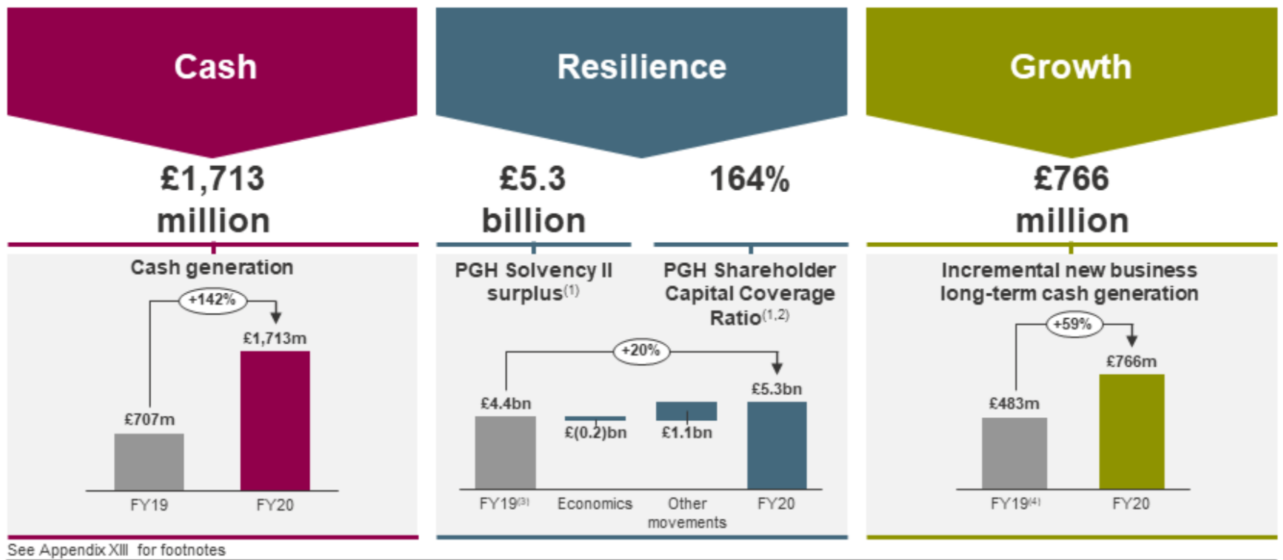
We delivered record cash generation, and record new business long-term cash.

And our financial strength allowed us to pay our planned dividends, and enabled the Board to recommend an increased final dividend for 2020.

We have a clear purpose: "Helping people secure a life of possibilities", with a pivotal role to play in society.

And we are focused on delivering better outcomes for all of our stakeholders, with key achievements this year including the announcement of our net-zero carbon commitment.

And the actions we have taken to increase colleague engagement.



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

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

We delivered cash generation of £1.7 billion for the year, exceeding the upper end of our £1.5 - £1.6 billion target.

With a £5.3 billion Solvency II surplus, and a shareholder capital coverage ratio of 164%, our financial position is strong.

And our resilience has been evidenced through a small economic variance, despite the market volatility .

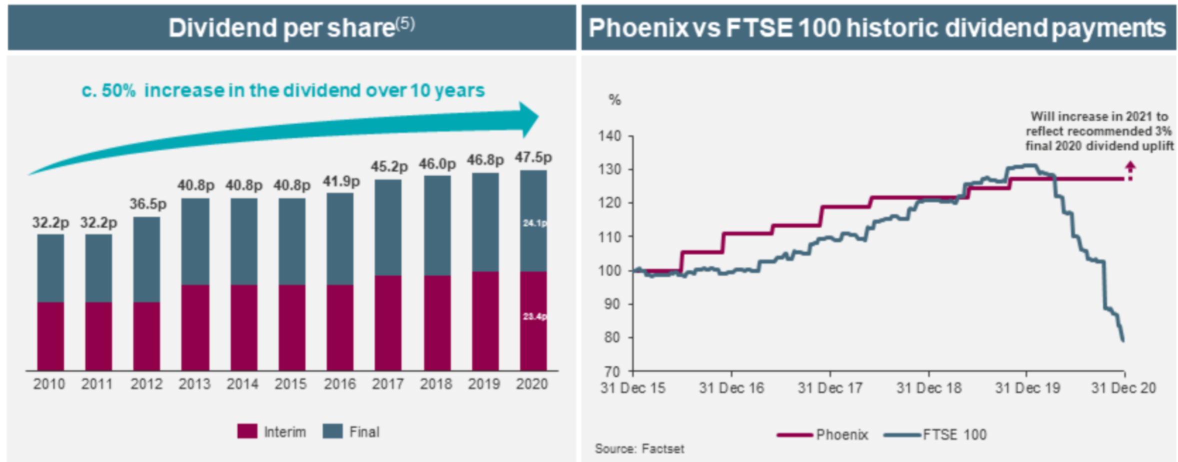
This year's strong financial performance has been supported by the significant progress we have made on delivering the ReAssure synergies, with nearly £700 million delivered to date.

Which has enabled us to increase our synergy target by over 30% to more than £1 billion.

Finally, we have delivered £766 million of incremental long-term cash from new business in our Open division – a 59% increase year on year, and significant progress

towards proving ‘the wedge’.

The resilience of our business model has enabled us to pay an increased dividend as planned



See Appendix XIII for footnotes

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Dependable cash generation, and a resilient capital position, are the key to our “rock solid” dividend, which we have the resources to fund for over 20 years.

We operate a “stable and sustainable” dividend policy, and historically, M&A has been the trigger for increases, as evidenced by the 50% increase in our dividend over the past 10 years.

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

Obviously, going forward, both M&A and organic growth, by proving the wedge, can lead to future dividend increases.

As the graph on the right shows, we have significantly outperformed the FTSE100, in terms of dividend growth through 2020.

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

As a purpose-led organisation, we believe that we have a pivotal role to play in society, as the UK navigates the shifting pension's landscape.

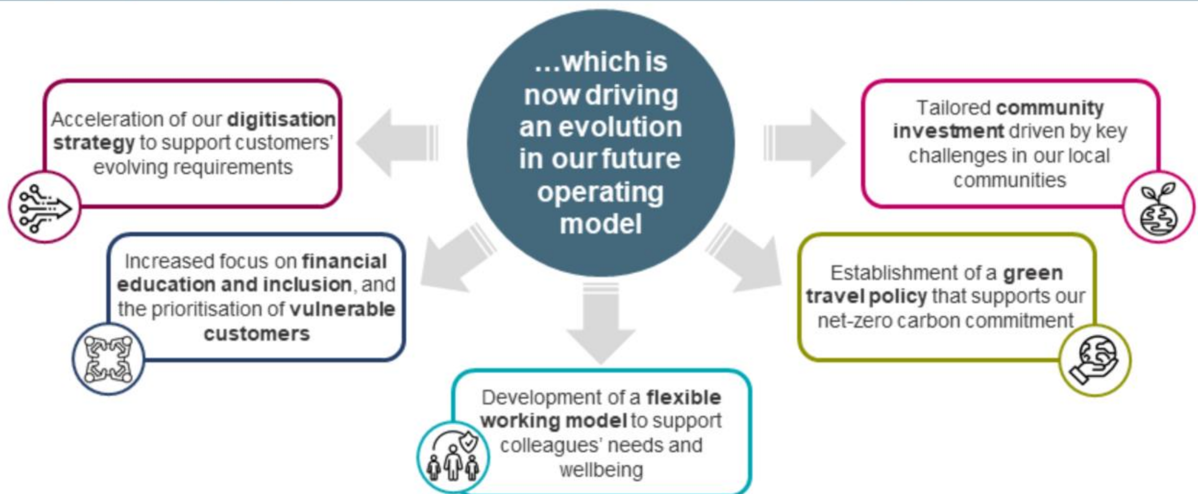
That's why our purpose is, helping people secure a life of possibilities. This means providing the right guidance and products, at the right time, to support the right choices.

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

The virtuous circle you see on this slide.

Rakesh will talk through the detail of the financial performance shortly, so I want to spend the rest of my opening slides focused on how we have been delivering better outcomes for our customers, colleagues, communities and wider society.

Which will, in turn, drive longer-term shareholder value.



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

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

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

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

Our colleagues are telling us they want a more flexible working model, and so we have a Group-wide "Future Ways of Working" project.

Here our colleagues are helping us to develop a model, that best supports their needs and wellbeing.

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

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

We continued to focus on delivering excellent customer service and investing in our customer proposition

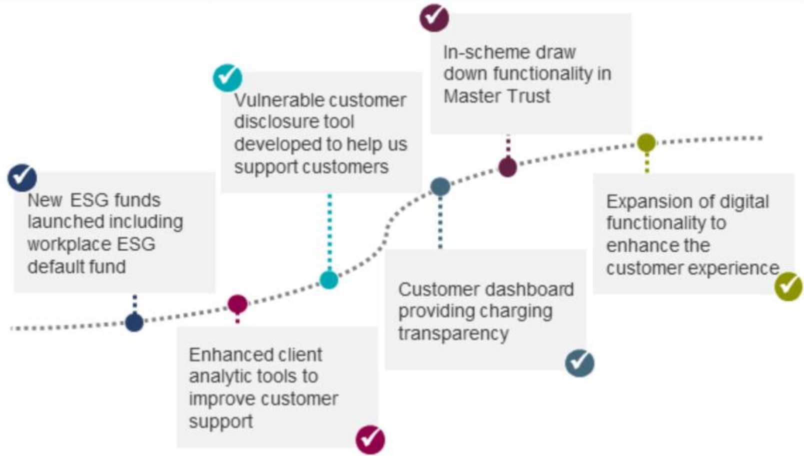
2020 key customer KPIs

94%
Customer Satisfaction Phoenix - telephony
Target: 93%

90%
Customer Satisfaction SLAL - telephony
Target: 90%

95%
Customer Satisfaction SLAL - digital journeys
Target: 90%

A year of significant customer proposition development



PHOENIX GROUP 9

Critical to our success is our focus on our customers.

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

Key to this was our decision to keep our call centres open, while others closed theirs, coupled with the immense dedication of our customer support teams.

I often see commentary which suggests Heritage providers offer worse customer service, but that is definitely not the case at Phoenix, with our key customer satisfaction KPIs all 90% or greater.

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

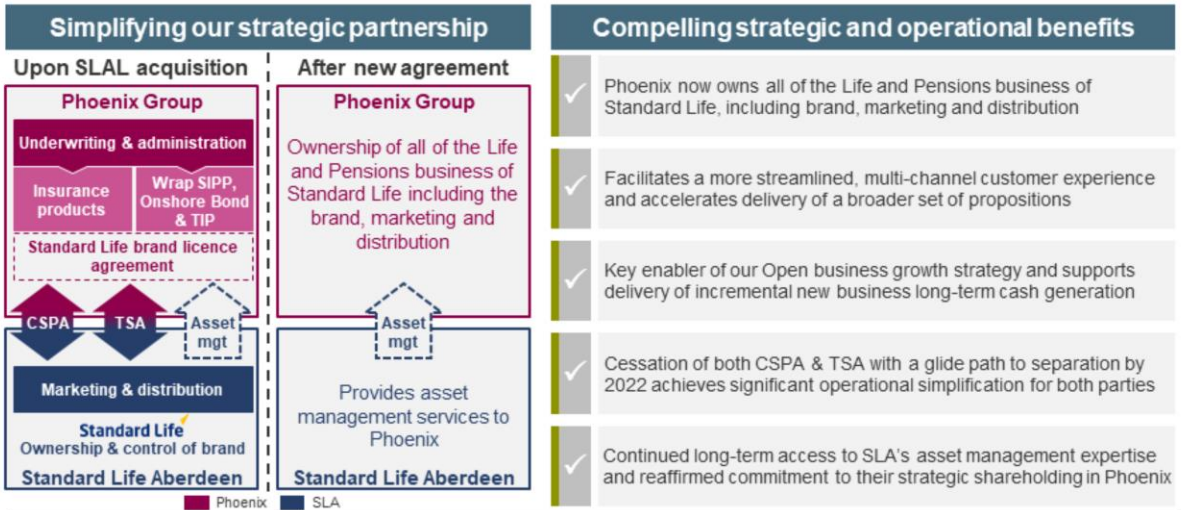
These include the launch of an ESG default fund for workplace clients, and an enhanced client analytics tool, that will enable us to better personalise the customer experience.

The launch of our in-scheme drawdown for Master Trust was another key proposition development, as it has filled a clear gap in our product offering, and now

better enables us to retain customers.

Finally, the expansion of our digital functionality has supported a strong increase in digital engagement by our customers,.

We now have over 50% of log-ins made via our enhanced mobile app, and online secure messaging volumes have more than doubled in 2020.



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

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

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

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

However, if we wanted to make proposition, marketing or distribution changes, then we had to first engage and agree this with SLA, who would in turn implement them on our behalf.

This meant we were slower to respond to the market than we would have liked.

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

This will enable us to provide a more streamlined, multi-channel customer

experience, and will allow us to accelerate the delivery of a broader set of propositions for customers.

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

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

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

I also know that the arrangements previously in place, had been operationally complex for many of our colleagues, day-to-day, and so I am pleased this new agreement simplifies things for them too.

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

We want to make Phoenix the best place our colleagues have ever worked, and so we are investing in our people proposition.

I was delighted that, despite what was clearly a challenging year for our colleagues, our recent annual engagement survey reported an increase of 10 percentage points in overall engagement, to 75%.

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

And we have also launched our “Who We Are” app, which is designed to enhance our diversity data, and enable us to better track and inform our progress.

We have also been proactive with the wellbeing and mental health support we have provided to our colleagues.

Which has included financial support for home-schooling equipment, additional emergency leave for parents and carers, and the increased promotion of our employee mental health network, Mind Matters.

Finally, we continue to develop our excellent talent in the business, and are augmenting this with high calibre new appointments, as you will have seen from

some of our recent press releases.

We’re building a team of the very best talent in the market.

We see sustainability as being at the core of our purpose, of helping people secure a life of possibilities, and a key enabler of our strategy.

We outlined our comprehensive new Sustainability strategy, at our Capital Markets Day in December, which focuses on delivering for our 14 million customers.

And investing our £338 billion of assets under administration, in a sustainable manner.

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

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

We have already signed-up to a commitment to setting Science-Based Targets. We are on track to have 100% renewable energy contracts across all of our offices by the end of 2021.

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

And, for our equity and liquid credit assets, where we exercise control and influence,

we will also be baselining and setting reduction plans.

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

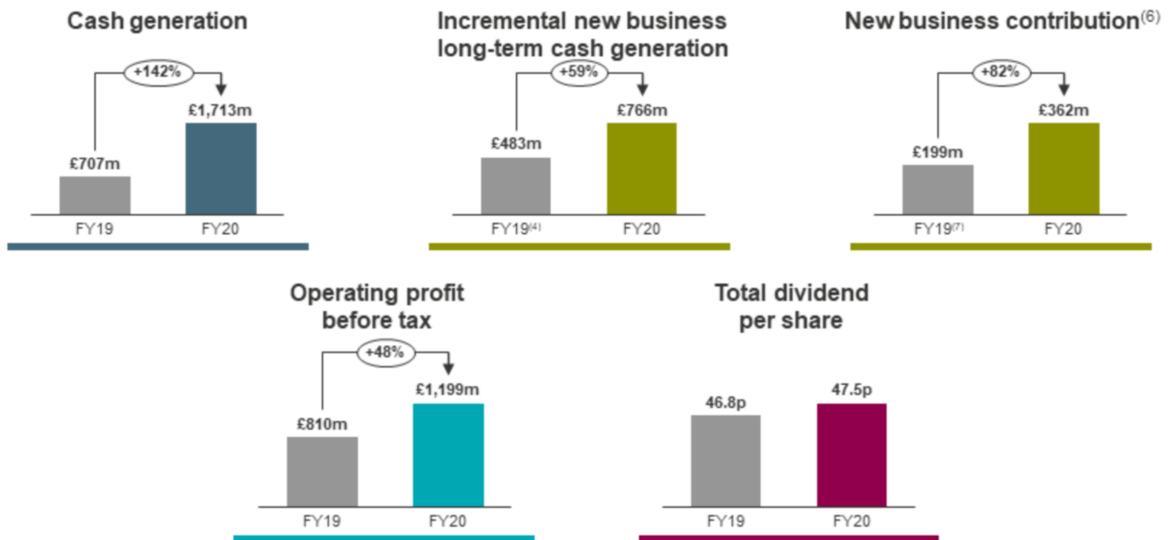
And with that, I'll hand you over to Rakesh.

2020 financial results

Rakesh Thakrar

Group Chief Financial Officer

Thank you Andy and good morning.

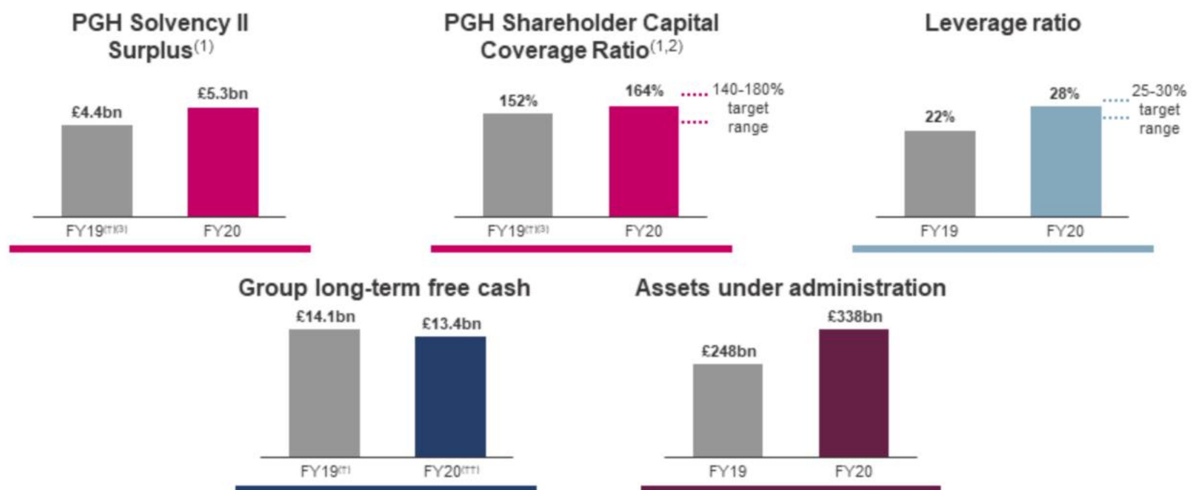


As Andy said, Phoenix delivered a strong financial performance in 2020, with record cash generation of £1.7 billion and new business of £766 million up 59% year-on-year, as we executed on our strategy of managing our in-force business for cash and resilience, and delivered growth.

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

Cash Resilience Growth

Phoenix increased the strength of its financial position in 2020



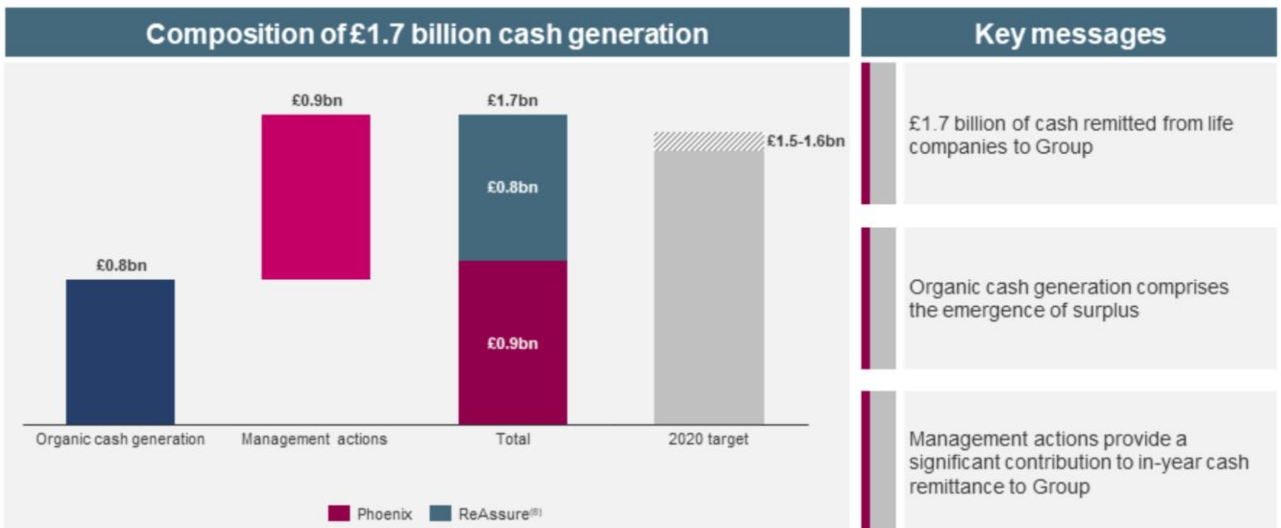
(†) FY19 pro-forma reflecting inclusion of ReAssure
(††) FY20 pro-forma reflecting sale of Wrap SIPP, Onshore Bond & TIP to SLA and the impact of the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget.
See Appendix XIII for other footnotes

PHOENIX GROUP

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

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

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

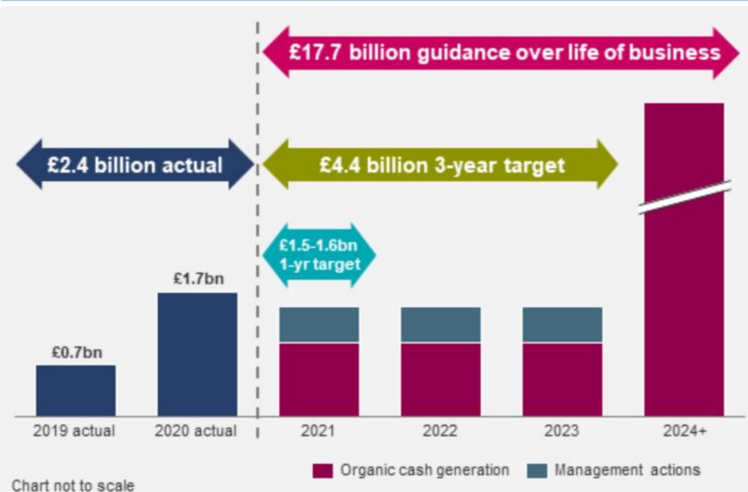


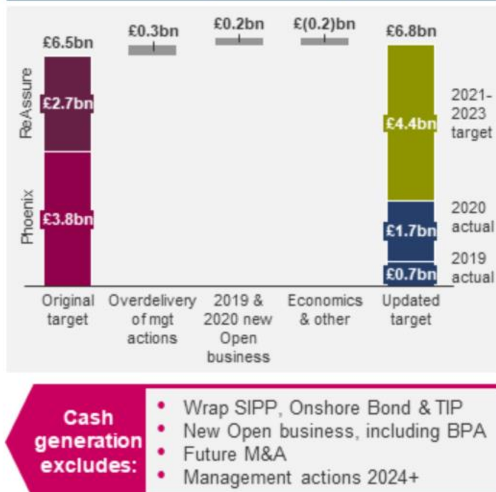
Turning first to cash.

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

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

Increased 5-year cash generation of £6.8 billion with new 1-year and 3-year targets set





Today we have set a new 1 year cash generation target range of £1.5 billion to £1.6 billion for 2021.

And we remain on track to deliver our 5 year target from 2019 to 2023, which has been “upgraded” today to £6.8 billion to reflect the ReAssure acquisition, together with new business and over-delivery of management actions during 2020.

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

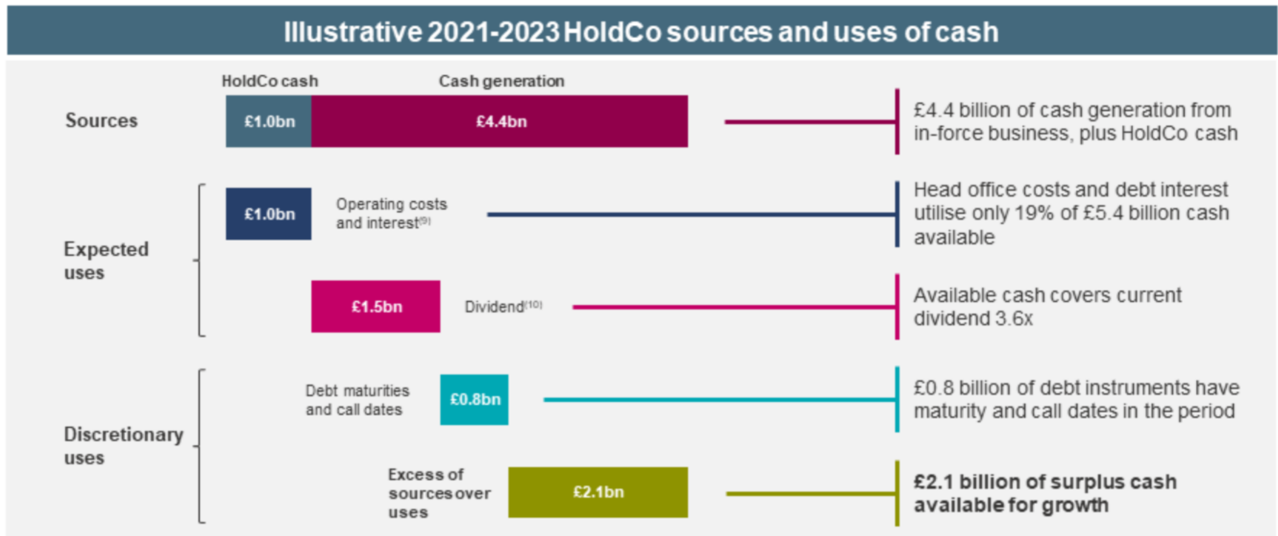
Phoenix’s cash generation guidance is based on in-force business only, and excludes the impact of any new business to be written in the future.
At the end of each year, we therefore have to “roll forward” our cash generation guidance to take account of new business written in the year and other known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

We estimate that the business in-force as at 31 December 2020 will generate £17.7 billion of cash over its lifetime.

This excludes the Wrap SIPP, Onshore Bond and TIP businesses, which have been sold back to Standard Life Aberdeen, and it has also been adjusted to reflect a prudent estimate of the impact of the changes to corporation tax from April 2023, that were announced last week, but which do not impact our short-term targets

given the enactment date.

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



Focusing first on the next three years, this slide sets out the Holdco uses of cash generation and illustrates how secure our current dividend is over that period.

It also highlights the significant amount of surplus cash that will be generated over this period which will be available for growth, subject to operating within our Fitch leverage target range of 25 - 30%.

Cash | Resilience | Growth

Group long-term free cash reflects cash available for costs, growth and shareholder returns

	31 Dec 2019[11]	31 Dec 2020[12]	
Long-term in-force cash generation	£19.0bn	£17.7bn	Decreases as cash is remitted to HoldCo
− M&A and transition costs	£(0.2)bn	£(0.3)bn	Transition costs to deliver integration of SLAL and ReAssure
+ Closing HoldCo cash	£0.3bn	£1.0bn	Increases as in-force cash generation is remitted
= Group long-term cash	£19.1bn	£18.4bn	Total cash available within the Group
− Shareholder debt	£(5.0)bn	£(5.0)bn	Total debt outstanding at the balance sheet date
= Group long-term free cash	£14.1bn	£13.4bn	**Total cash available for operating costs, interest, growth and shareholder returns**

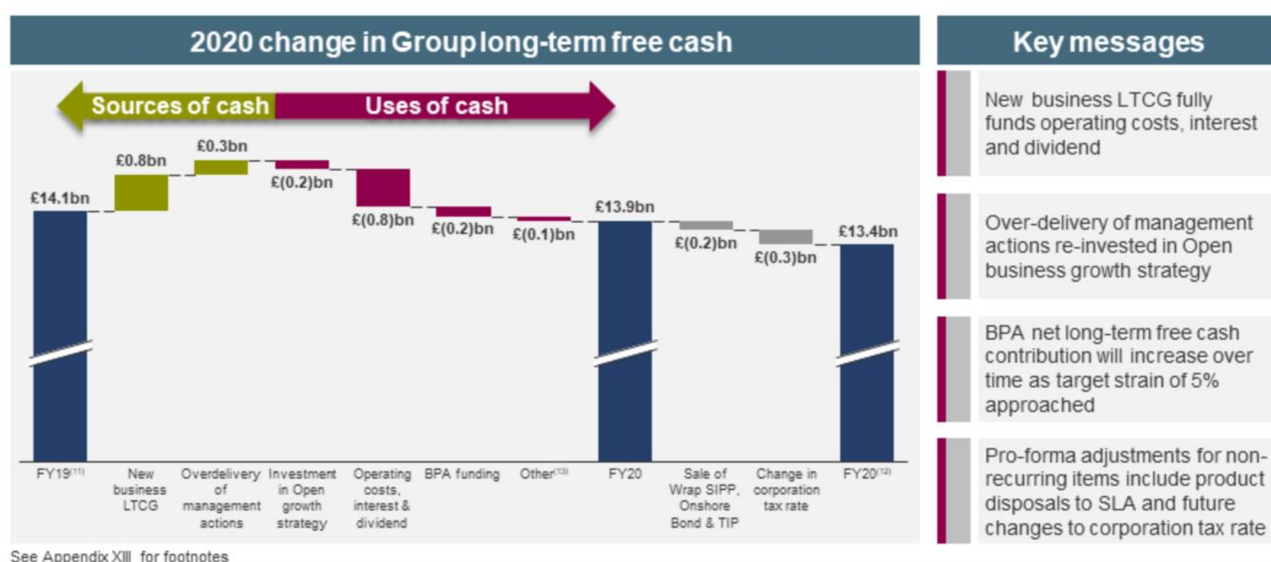
See Appendix XIII for footnotes

To improve the clarity of our reporting, we introduced a new metric called Group long-term free cash at our Capital Markets Day in December.

The starting point is our £17.7bn of long-term cash generation, which includes 10 years of capitalised future acquisition costs.

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

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



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

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

We have also over delivered on our management actions during the year by around £300 million, but have chosen to reinvest around £200 million back into our Open business growth strategy.

We have made a one-off allowance of around £20m of costs per annum that has been capitalised for the next 10 years, which is a modest investment relative to the growth in open business long-term cash generation we expect to deliver over time. This primarily reflects the necessary investment in people, propositions and capabilities in our Open business, Asset Management business, as well as Brand and Sustainability, in order to deliver the growth ambitions we outlined at our Capital Markets Day.

The Groups recurring uses of cash include operating costs, interest and dividend plus the funding of new BPA business.

As you can see, incremental cash from new business fully funded our operating costs, interest and dividend, and by improving the capital efficiency of our BPA

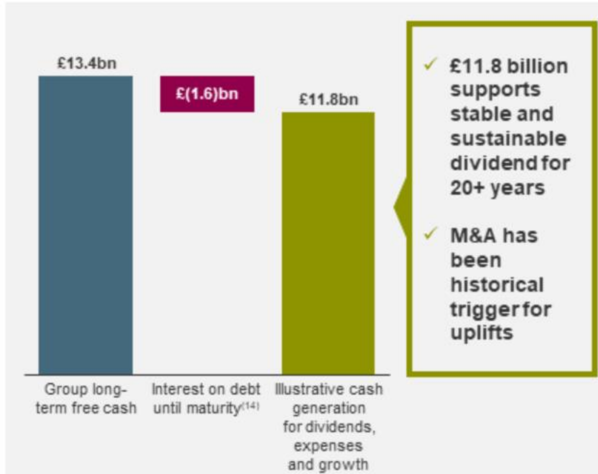
business and continuing to over-deliver on our management actions in the future, we will increase the net long-term free cash contribution over time.

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

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

Stable dividend payable for 20+ years and a clear framework for dividend growth

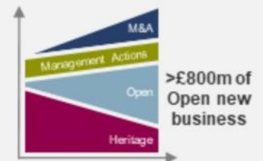
We have a stable and sustainable dividend



Organic growth can support dividend increases

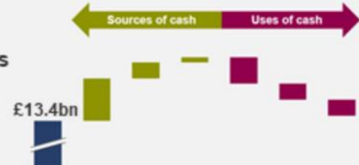
Condition 1: proving 'the wedge'

Organic offset more than achieved



Condition 2: Group long-term free cash

Recurring sources of cash exceed uses of cash



See Appendix XIII for footnotes

Group long-term free cash is £13.4 billion.

After the servicing of debt until maturity, this leaves £11.8 billion of cash available to shareholders.

This level of Group cash supports our stable and sustainable dividend for over 20 years.

And whilst historically the trigger for uplifts has been M&A, the Board now has a clear framework for considering whether organic growth has the potential to support dividend growth.

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

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

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

2020 IFRS operating profit of £1.2 billion

	FY20	FY19[15]
Heritage	£278m	£350m
ReAssure	£444m	-
Open	£516m	£469m
Service company	£6m	£26m
Group costs	£(45)m	£(35)m
Operating profit before tax	**£1,199m**	**£810m**
Investment return variances and economic assumption changes	£101m	£(164)m
Amortisation of intangibles	£(482)m	£(395)m
Other non-operating items	£281m	£(169)m
Finance costs	£(191)m	£(127)m
Profit before tax attributable to non-controlling interest	£36m	£31m
Profit/(loss) before tax attributable to owners	**£944m**	**£(14)m**
Tax (charge)/credit attributable to owners	£(110)m	£130m
Profit after tax attributable to owners	**£834m**	**£116m**

See Appendix XIII for footnotes

Key messages

- Heritage FY19 operating profit included one-off benefits from modelling improvements
- ReAssure operating profit includes circa £190 million from updated longevity assumptions
- Open business operating profit reflects new business profits on BPA and positive longevity assumption changes
- Positive investment variances driven by gains on interest rate hedging and inflation partially offset by credit spread widening
- Other non-operating items include circa £370 million gain on ReAssure acquisition

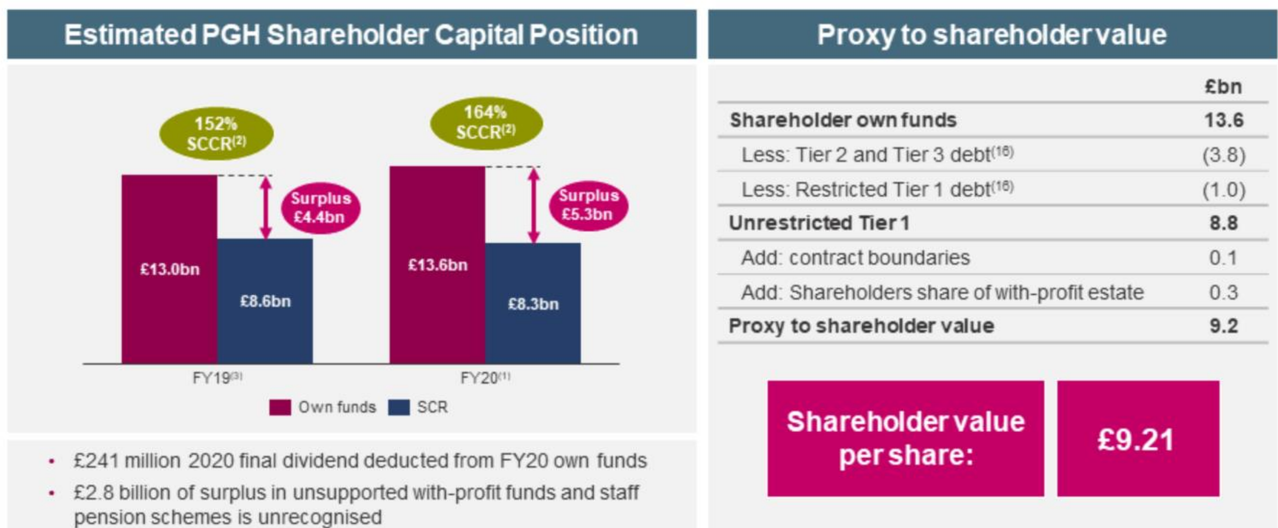
Before we move on to talk about Resilience, I will walk you through our IFRS results. We delivered operating profit of £1.2 billion in 2020, 48% higher than the prior year. This increase is driven by the inclusion of the post-acquisition results of ReAssure and the benefit of new business.

Our Heritage business operating profit is down year-on-year as 2019 experienced one off benefits from modelling improvements, while ReAssure, which still includes the annuity portfolio, contains a circa £190 million gain from updated longevity assumptions in 2020.

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

We have updated our Group assumptions to reflect the move to CMI 19 tables and we have made no allowance for the pandemic on our future assumptions.

Finally, just to note that non-operating items include a £372 million accounting gain on the Reassure acquisition.



Maintaining Phoenix's capital resilience has been my key priority during the economic turbulence of the year.

As at 31 December 2020, the Group had an estimated Solvency II surplus of £5.3 billion and a shareholder capital coverage ratio of 164%.

This ratio is comfortably in the middle of our target range of 140 to 180 percent and is significantly higher than the 31 December 2019 pro-forma ratio of 152%, reflecting strong delivery of management actions and synergies during the year.

The year end position is also stated after recognition of the 2020 final dividend of £241 million.

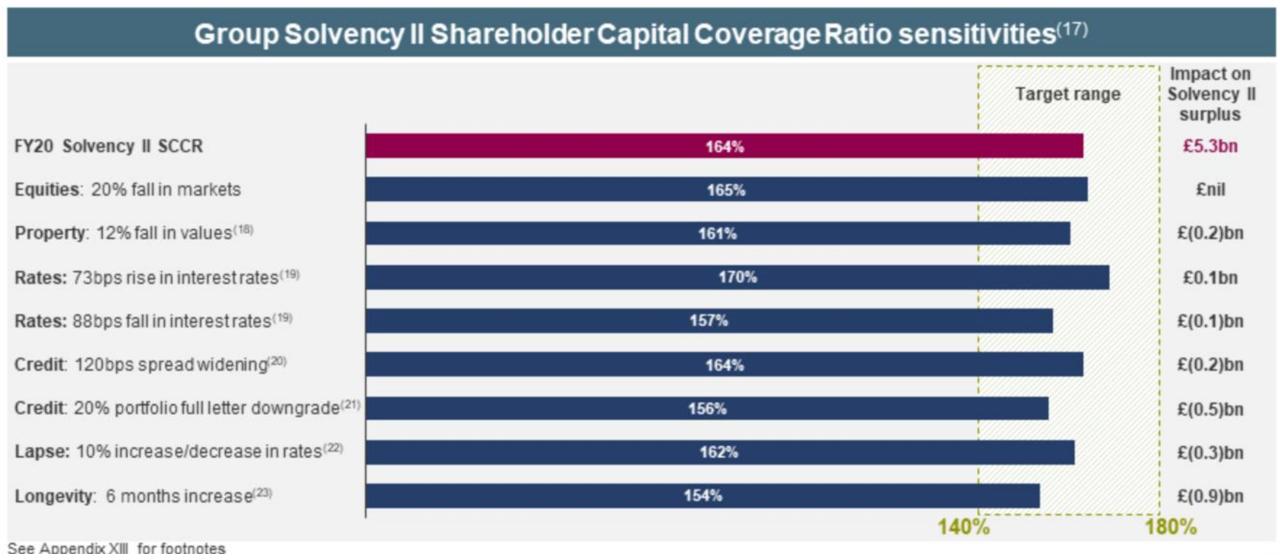
Shareholder Own Funds less debt continues to be a good starting point for determining shareholder value but does not include a number of areas where value exists.

These include contract boundaries, where the value of in-force on unit-linked business is restricted under Solvency II, and the shareholders share of our with-profit estate.

Adjusting for these items provides a proxy for shareholder value at 31 December 2020 of £9.2 billion, which equates to £9.21 per ordinary share.

This value proxy is effectively “ex-dividend”. It also places no value on future new business from vesting annuities, BPA and open channels or management actions.

And I would note that this is significantly above our current share price of just over £7.30 per share.



Phoenix has a unique approach to managing risk.

We have a particularly low appetite to equity, currency and interest rate risks, which we see as unrewarded.

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

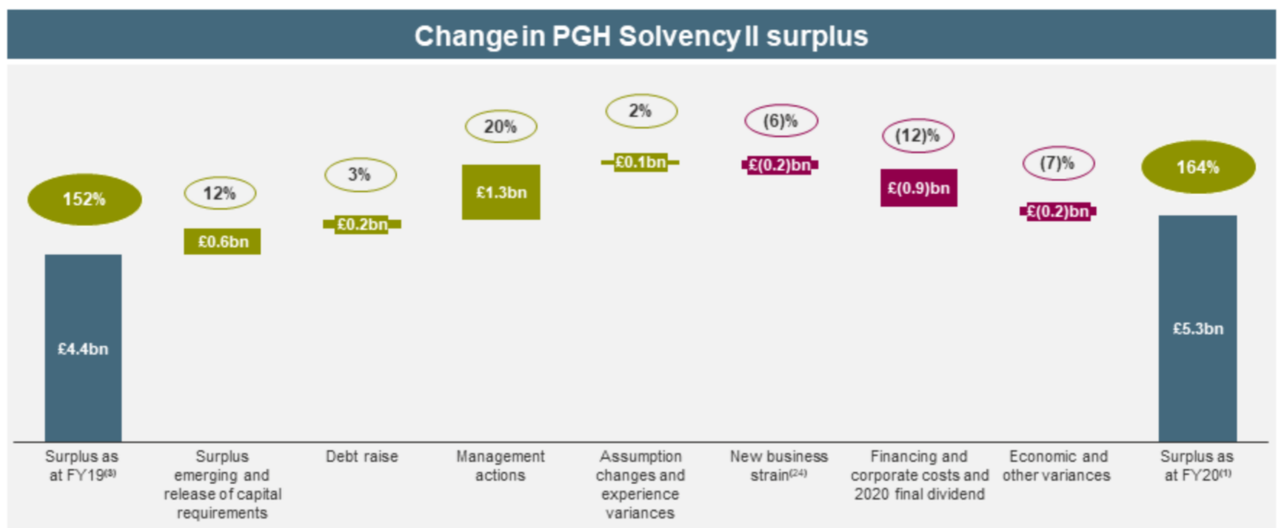
We see credit risk as rewarded and actively manage our portfolio to ensure that it remains high quality and diversified, and operates within our risk appetite.

It is worth noting that the credit sensitivities we disclose are very prudent as they assume no management actions are taken to rebalance our portfolio.

Finally, we manage our longevity risk through reinsurance.

Cash | **Resilience** | Growth

Increase in Solvency II surplus reflects delivery of management actions and limited impact of market volatility



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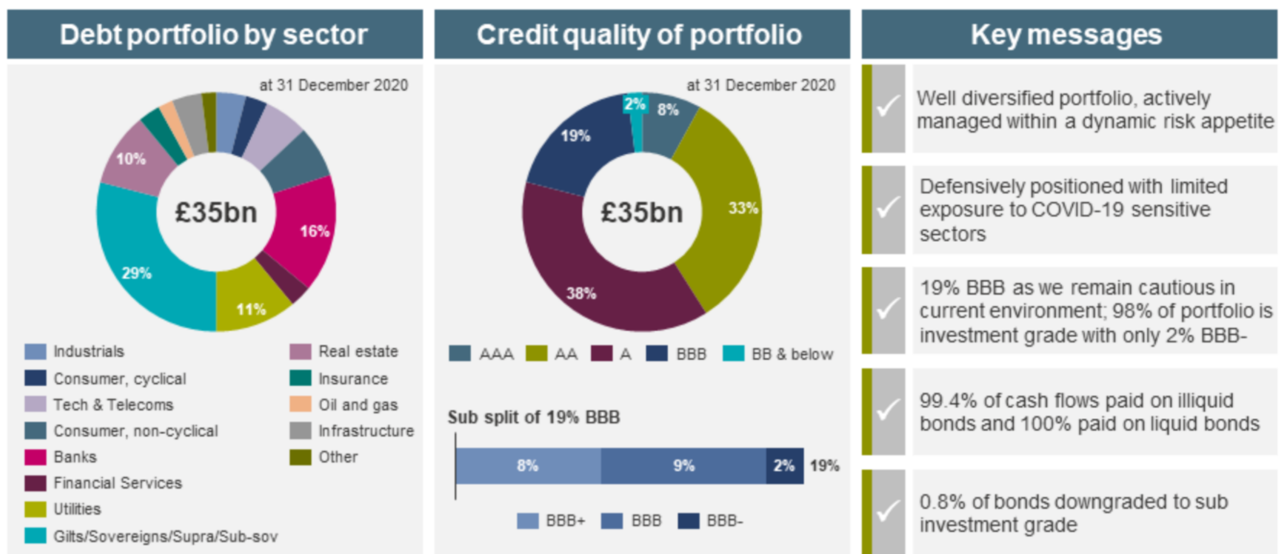
PHOENIX GROUP

Our focus on risk management and delivery of management actions has driven the significant increase in our capital surplus and solvency ratio during the year.

Despite the market volatility experienced in the year, we have seen only a £0.2 billion strain from economics. This evidences both our hedging programme and active credit portfolio management in action.

We have also completed the annual review of longevity assumptions. As mentioned earlier, we have updated our assumptions to the CMI_2019 longevity tables but we have made no allowance to changes in assumptions from the pandemic.

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



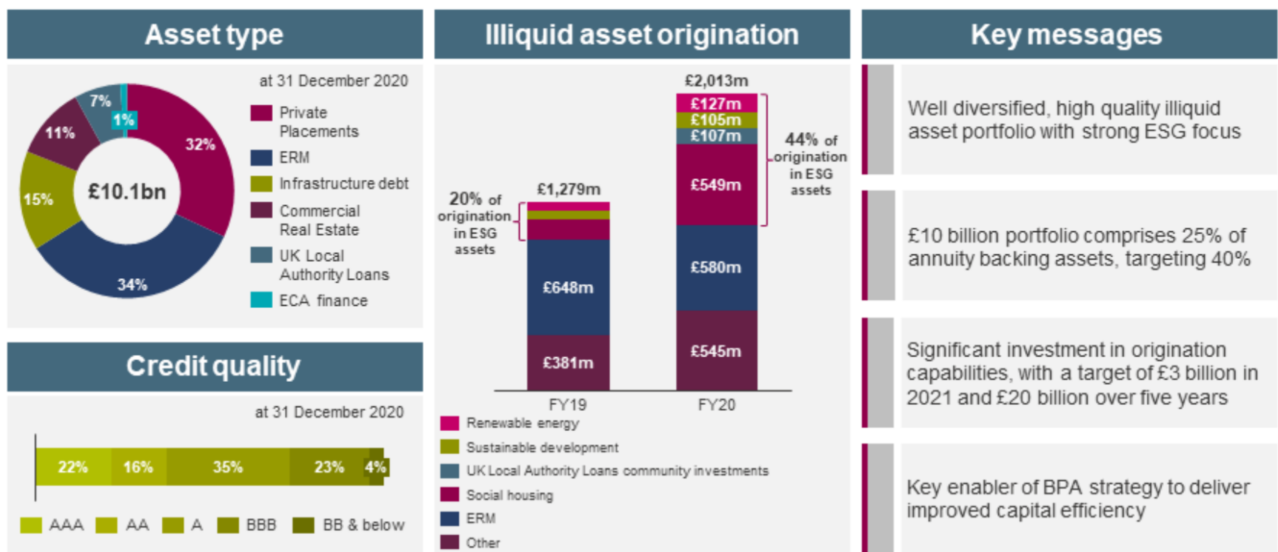
Phoenix has a diversified, high credit quality shareholder debt portfolio.

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

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

98% of our portfolio is investment grade with only 2% of the portfolio sitting at BBB-
The quality of our portfolio is demonstrated by our cashflow payment experience with greater than 99% of cashflows paid on illiquid bonds and 100% paid on liquid bonds.

Our active management approach has also enabled us to minimise our downgrade experience during the year with only 0.8% of bonds experiencing a downgrade to sub investment grade.



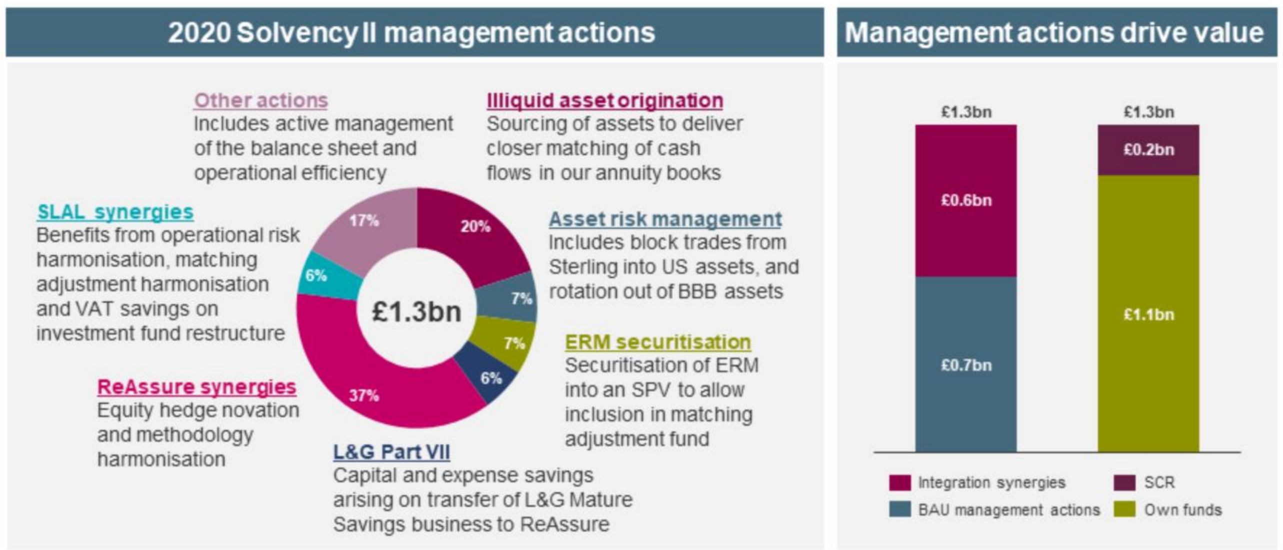
Long dated, or "illiquid" assets provide excellent cashflow matching for our £41 billion annuity book, and illiquid asset origination is a key management action.

Our £10 billion illiquid asset portfolio comprises 25% of annuity backing assets and is high quality and well diversified. It includes equity release mortgages, private placements and infrastructure, with smaller holdings of commercial real estate and local authority loans.

We continue to target increasing our allocation of illiquids to 40%, and intend to originate circa £3 billion of illiquid assets in 2021.

We are investing in our origination capabilities and are continuing to increase our focus on sourcing ESG assets and supporting the Government in building Britain back better, with plans to invest £20 billion over the next five years.

We recognise that sourcing the right illiquid assets is a key enabler of reducing the capital strain on our BPA business and we will continue to focus on value over volume in our origination.



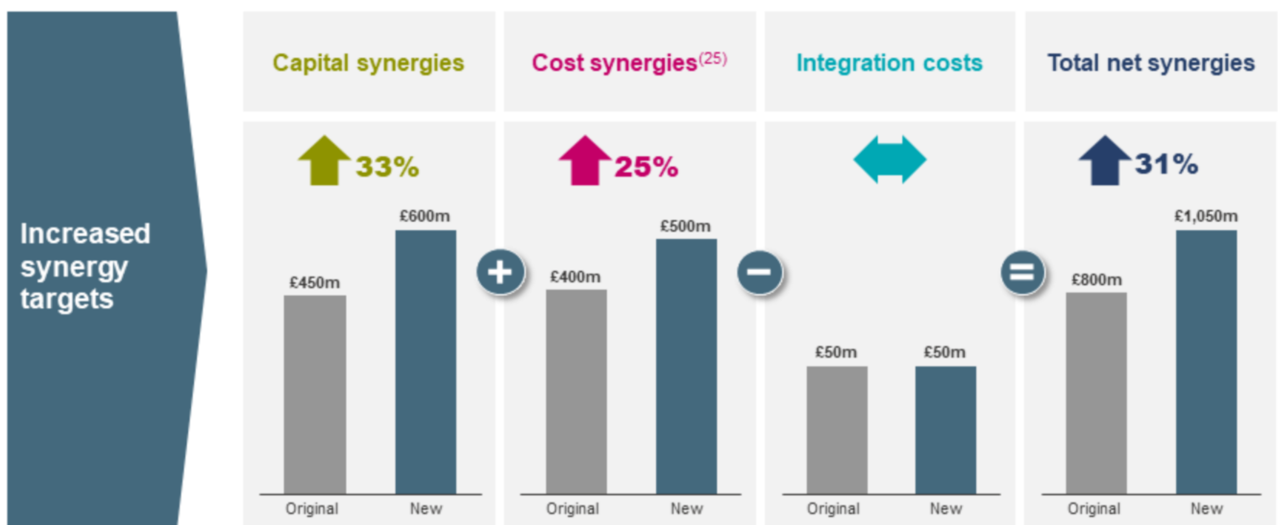
Management actions drive value and are a key strength of our business.

During the year, delivery of management actions contributed £1.3 billion to surplus capital.

Whilst the delivery of integration synergies from the Standard Life and ReAssure acquisitions is an important part of this year’s actions, more than half of our management actions were delivered from our “business as usual” activities, which highlights the sustainability of our management actions.

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

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



We are the market leader in the integration of Heritage businesses and the acquisition of ReAssure has significantly strengthened our capabilities in this regard.

Having completed the ReAssure acquisition in July, we continue to progress with our plans to integrate the business into Phoenix.

The strong progress made to date has enabled us to increase our synergy targets by £250 million for this acquisition, from £800 million to just over £1 billion, an increase of over 30%.

This reflects the strong progress we have made on capital synergies with £479 million already delivered against our original £450 million target, as well as the identification of an additional £10 million per annum of after tax cost synergies, which we then capitalise for 10 years.

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

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

Cash | **Resilience** | Growth

Integration programmes on track with £0.7 billion of ReAssure synergies delivered in just 6 months

	Standard Life				ReAssure			
	In year	Cumulative	Target	% of target	In year	Cumulative	Revised Target	% of target
Capital synergies (net of costs)	£75m	£720m	£720m	100%	£479m	£479m	£600m	80%
Cost synergies[26] (per annum)	£7m	£40m	£75m	53%	£22m	£22m	£50m	44%
One off cost synergies	£10m	£38m	£30m	127%	N/A	N/A	N/A	N/A
Integration costs[27] (net of tax)	£32m	£47m	£150m	31%	£3m	£3m	£50m	6%
Total value[28]	**£111m**	**£1,042m**	**£1,220m**	**85%**	**£696m**	**£696m**	**£1,050m**	**66%**

See Appendix XIII for footnotes

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

The next key milestone for us will be obtaining regulatory approval for our harmonised Internal Model. We expect to submit our application this month and hope to receive approval by the end of Q3, in line with the typical regulatory approval timeline.

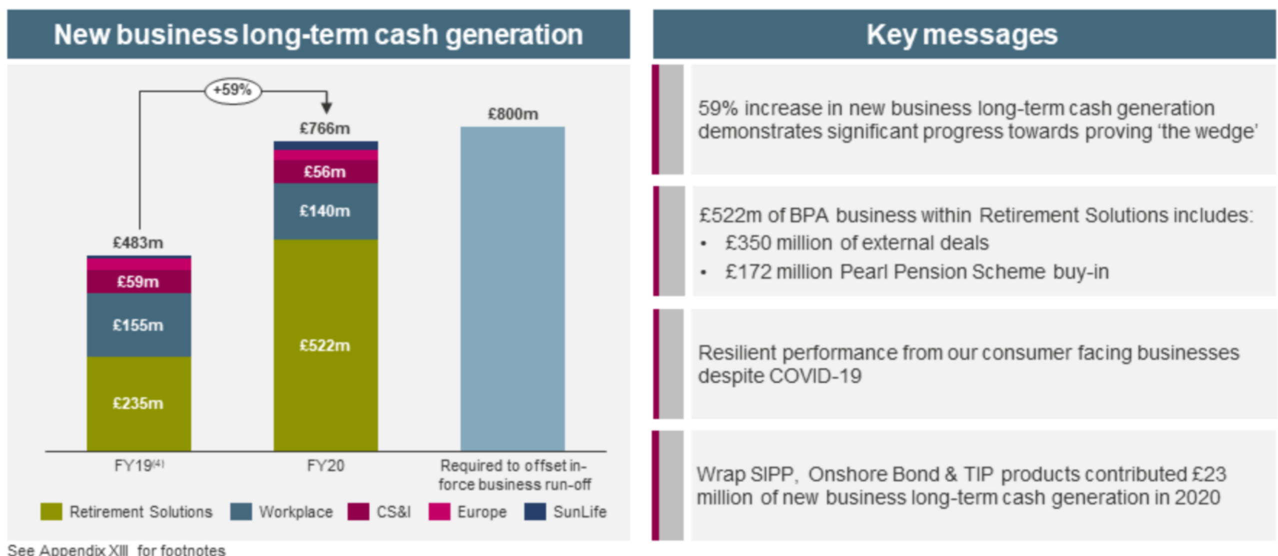
Not only will this allow us to proceed with our planned Part VII of the legacy Phoenix Life and Standard Life legal entities, but it will also allow us to proceed with bringing ReAssure into the new internal model.

This Part VII will cover in the region of 10 million policies and be one of the largest ever undertaken in the industry. We expect this to complete in 2022.

The migration of the Standard Life business onto the Diligenta BANCs platform continues to progress to plan, targeting completion in 2023.

This will deliver the remaining cost synergies and incur the majority of expected transition costs, with a significant investment having already been made to deliver these future cost synergies.

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



2020 was a record year for new business at Phoenix, delivering £766 million of incremental long-term cash generation; a 59% increase year on year.

As I mentioned earlier, we expect £800 million of incremental cash generation per annum from new business will be sufficient, to offset the run off of our in-force business.

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

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

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

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

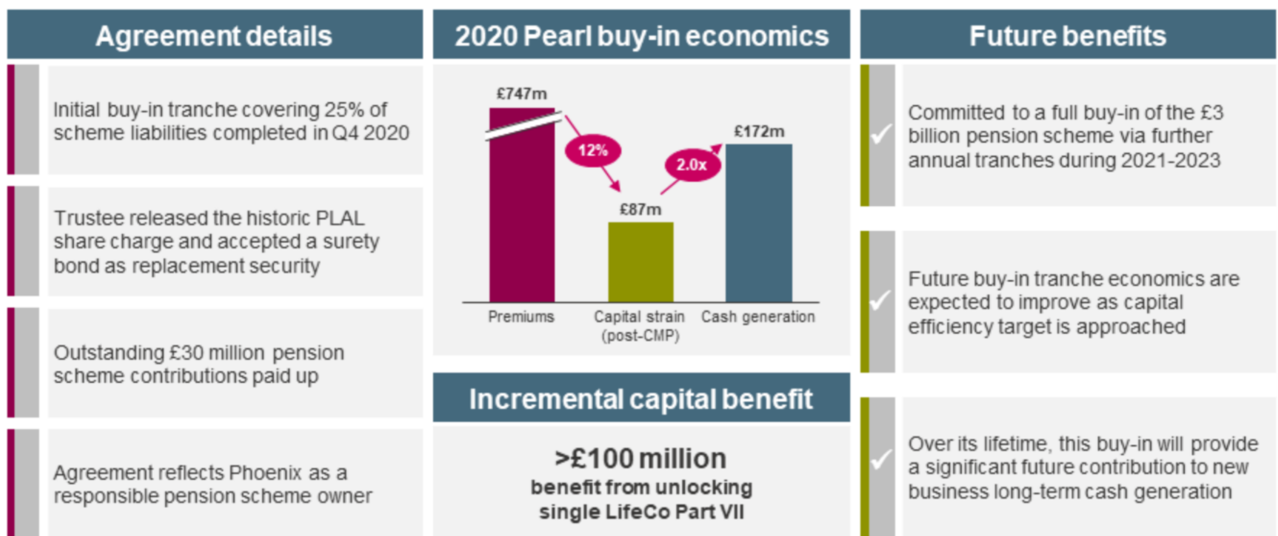
Growth in our Retirement Solutions business is driven by BPA.

In the year, we took an estimated 6% share of the external BPA market delivering £350 million of incremental long term cash generation.

We have continued to see improvements in our external deal economics with average payback reducing to 5 years in 2020, and capital strain reducing to 8%.

We are investing in our capabilities to ensure we become increasingly competitive in this market and are targeting a capital strain of 5%, which we will achieve through harmonisation of the internal model, illiquid asset origination and improved reinsurance.

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



We were also delighted to reach an agreement with the trustees of the Pearl Pension Scheme, of which Phoenix is the parent sponsor, for a buy-in of the full £3 billion of scheme liabilities.

We will deliver this through a series of tranches over the next 2-to-3 years and it therefore provides a significant contribution to incremental new business long-term cash generation in future years, with £172 million delivered in 2020.

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

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

Cash Resilience Growth

Phoenix has a clear financial framework supporting its strategy

	Cash	Resilience	Growth
2020	• £1.7 billion of cash generation exceeds upper end of £1.5-£1.6 billion target range	• £5.3 billion SII surplus and 164% SII ratio • 28% Fitch leverage ratio	• Record year of incremental new business cash generation at £766 million • £7 billion of additional long-term cash generation from ReAssure acquisition
2021+	• Deliver £1.5-£1.6 billion cash generation target in 2021 • Deliver £4.4 billion cash generation target across 2021-2023	• Maintain SII ratio within 140%-180% target range • Manage Fitch leverage ratio within 25%-30% target range	• Deliver incremental new business long-term cash generation • Recurring Group long-term free cash sources to exceed uses

To conclude, Phoenix has a clear financial framework which supports its strategy and delivers cash, resilience and growth.

2020 was a record year for Phoenix with £1.7 billion of cash generation and £766 million of incremental long-term cash generation from new business.

Despite the many challenges of the pandemic, the business was resilient throughout, with both leverage and solvency managed comfortably within our target ranges, enabling us to pay and increase our dividends as planned.

Moving forward, we have set new 1 year and 3 year cash generation targets and increased the synergy targets associated with the ReAssure acquisition.

We will continue our focus on delivering resilience by operating within our target ranges for Solvency and Leverage.

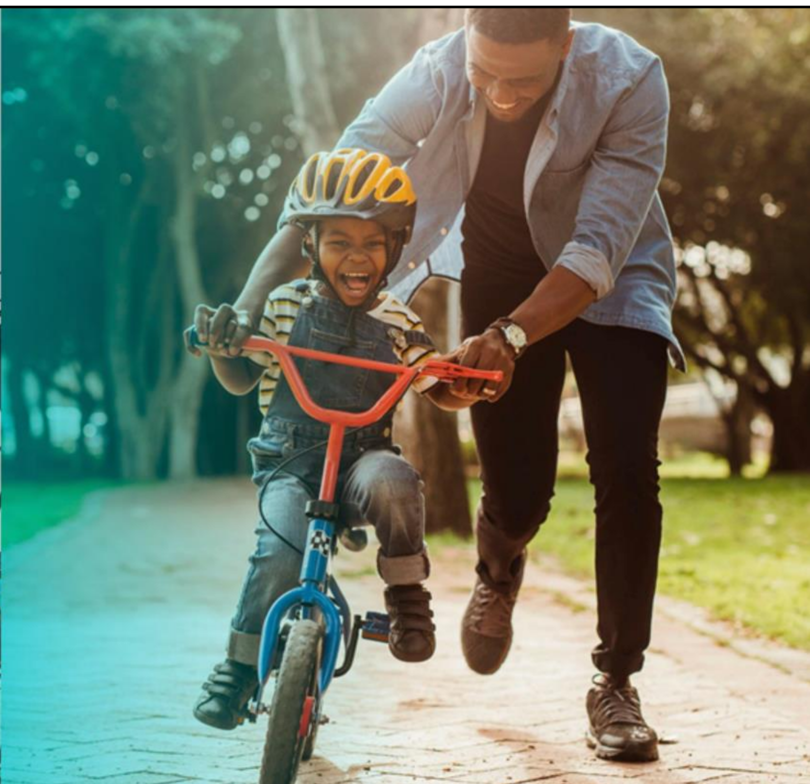
And finally, we will proactively seek to deliver on our growth strategy and bring sustainability to Group long-term free cash.

I will now hand you back to Andy.

Outlook

Andy Briggs

Group Chief Executive Officer



Thanks Rakesh.

We have a clear strategy, that is focused on three key priorities, and leverages the industry drivers of change.

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

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

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

And our third priority is customer acquisition.

Here we'll leverage both the strong growth in the workplace market, and increasing demand from corporates for BPA transactions, to deliver new business.

And we will continue to assess heritage M&A transactions, as insurers further consolidate in order to release trapped capital, and avoid cost inefficiencies.

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

Phoenix is the market leader in managing Heritage businesses, and our priorities in 2021 are consistent with prior years.

First, is ever improving customer outcomes – be that through delivering value for money, tracing and repatriating lost policies, or being proactive in preventing pensions fraud.

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

Third, once again delivering value accretive management actions.

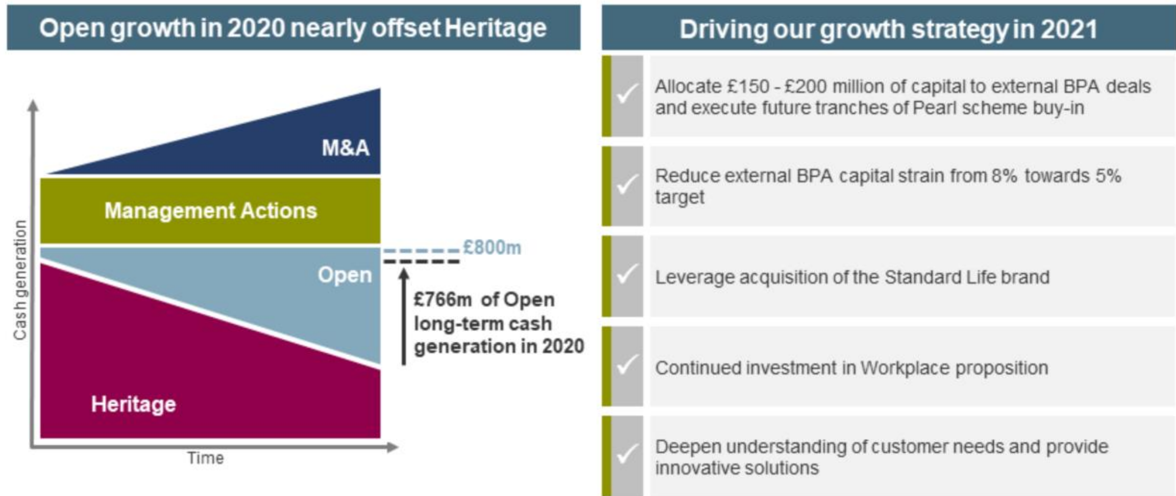
We have a clear track record of success here, having delivered over £1 billion last year, and nearly £3.5 billion of cash generative actions over the past 11 years.

And finally, we will execute on our integration plans, to deliver cost and capital synergies.

We have got a busy programme of integration activity scheduled for 2021, but are confident in our ability to execute.

With our tried-and-tested, three phased, sequential approach, meaning we can

safely manage multiple integrations at once.



We have built strong growth momentum in our Open business in 2020, and, as Rakesh has outlined, we came very close to proving 'the wedge' last year.

We are focused on building on this success, and driving our growth strategy forward, in 2021.

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

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

We also have further tranches of our Pearl scheme buy-in to deliver, and it is good to know that we have already secured this significant boost, to new business cash generation, over the next few years.

Leveraging the newly acquired Standard Life brand is really exciting for us.

And I talked earlier about how ownership of the brand, and with it marketing and distribution, is a key enabler of our growth strategy, for Workplace and Customer Savings and Investments.

We will also be continuing the investment in our Workplace proposition, as we look to build on our top 3 position.

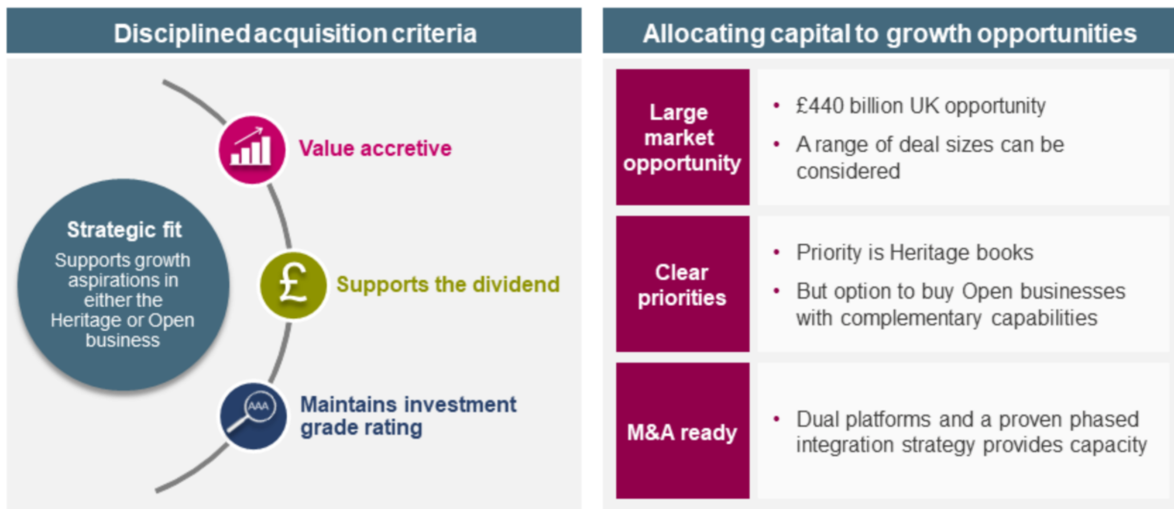
New proposition developments in 2021 include a Workplace ISA, and further expansion of our ESG offering.

And an increased focus on digitisation, including using data and analytics, to provide a more personalised customer experience.

In our Customer Savings and Investment business, we will be leveraging the insight we have garnered, from the customer engagement we undertook in 2020, to develop innovative new solutions, through an agile test and learn approach.

Finally, as part of our commitment to the financial adviser market, we have been working with our partner TCS to develop a new and improved digital portal for retail advisers in the UK.

It will launch later in 2021 and will help advisers work more efficiently and create more opportunities for them with their customers.



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

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

Alongside being a good strategic fit, any deal has to be:
Value accretive;
Supportive of the dividend; and
Enable us to maintain our investment grade rating.

There remains a huge opportunity for us to explore. The UK Heritage market alone is a £440 billion opportunity.

While our focus remains on acquiring Heritage books, we will also consider buying Open books, if they bring complementary capabilities to our strategy, and meet our 3 criteria.

And if the right opportunity comes along, then we undoubtedly do have both the firepower and capacity to execute.

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

Again, our story is simple…

The key outcomes we deliver for our shareholders are cash, resilience and growth.
In 2021, we will deliver those by continuing with the disciplined management of our balance sheet, delivering on our integrations, and by accelerating our Open business growth strategy.

And as a purpose-led organisation, we will do this through:
Delivering on our sustainability commitments, and investing to help Britain build back better and greener;
Ensuring our customers are at the centre of everything we do; and
By investing in our people and culture.

And with that, we will move to questions.

Please can I therefore ask the analysts to now log-in to the Zoom call with the details they have been sent by the IR team.

I am pleased to say that Andy Curran, Andy Moss and Mike Eakins will also be joining Rakesh and I for the Q&A session.

In terms of the format, for the sell side analysts who are joining the Zoom call please use the Raise Your Hand function and the operator will bring you into our presentation live via video and enable you to ask questions directly to the presenters.

For anyone watching on the webcast, please use the Q&A facility and we will come to your questions after we’ve been to those on the Zoom call.

Q&A

Investor Relations activity and contacts

Date	Event
March	Virtual results roadshow
16 March	Morgan Stanley European Financials Conference
29 March	HSBC 6th Annual West Coast Financials Conference
11 May	KBW European Financials Conference
14 May	Annual General Meeting
25 May	Autonomous European Insurers & Asset Managers Fins Forum
26 May	ODDO BHF & Natixis Insurance Forum
02 June	Deutsche Bank Global Financial Services Conference
15 June	J.P. Morgan European Insurance Conference

Note: dates are provisional

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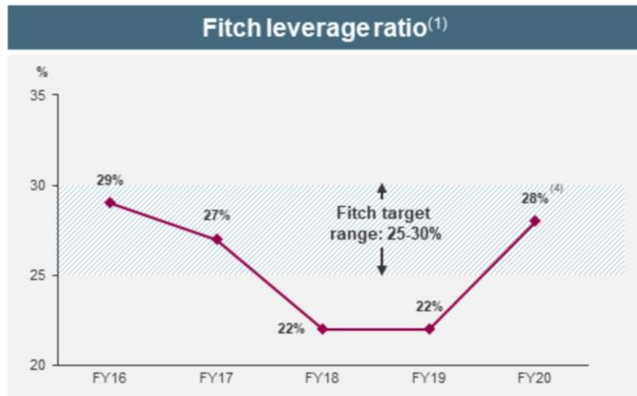
Appendices

I	Leverage ratios
II	Outline of debt maturity profile as at 31 December 2020
III	Movement in assets under administration
IV	Breakdown of Open business segments as at 31 December 2020
V	Change in Life Company Free Surplus
VI	Estimated PGH Solvency II surplus and coverage ratios
VII	Estimated shareholder SCR by risk type and PGH own funds tiering
VIII	Regulatory Capital Coverage Ratio sensitivities
IX	2020 operating profit drivers
X	Credit quality by sector for shareholder debt portfolio
XI	Sustainability performance ratings
XII	Corporate structure as at 31 December 2020
XIII	Footnotes

Appendix I: Leverage ratios

Fitch leverage ratio[1]



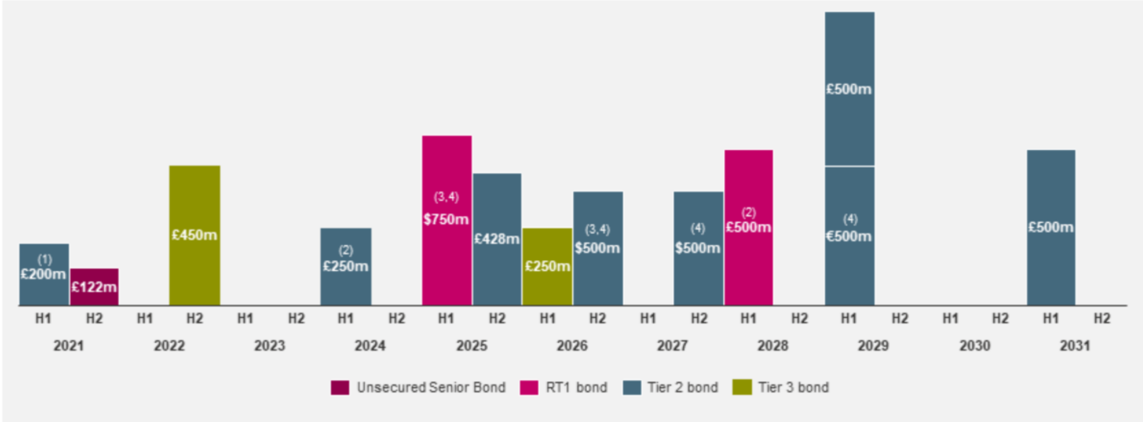
FY20 leverage ratios

Fitch basis[1]	28%
IFRS basis[2]	41%
SII leverage[3]	31%

- IFRS leverage ratio classifies RT1 as debt
- We estimate a funding capacity for inorganic growth as at FY20 of circa £1.4 billion

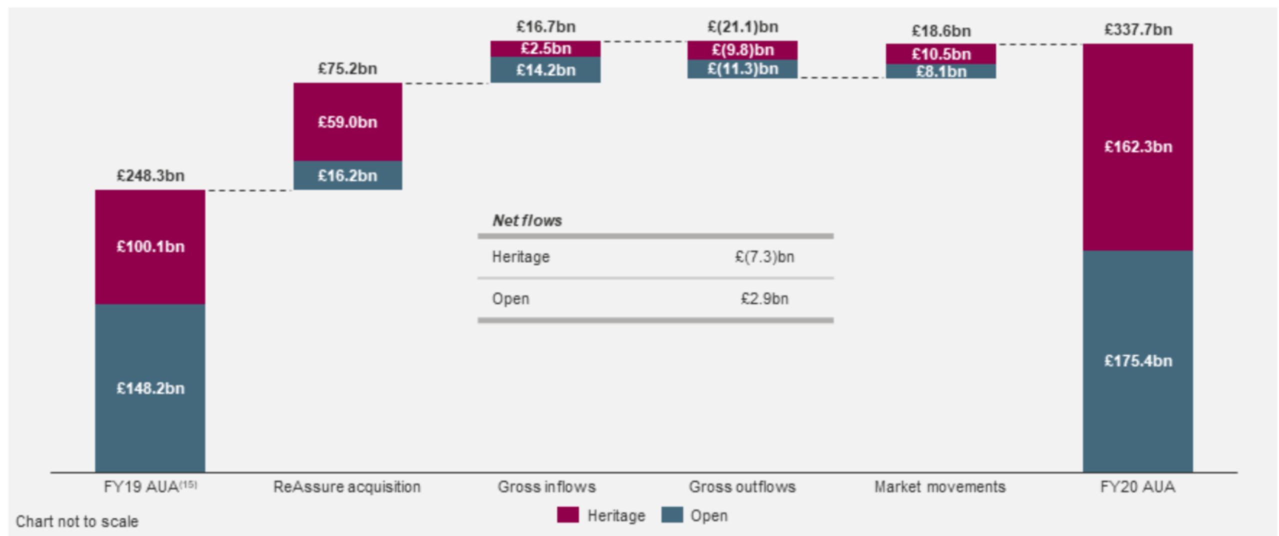
(1) The Fitch leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1).
(2) IFRS leverage calculation = debt (all debt including RT1) / debt + equity (Shareholder equity only).
(3) SII leverage calculation = debt (all debt including RT1) / SII regulatory own funds.
(4) Phoenix calculated.

Appendix II: Outline of debt maturity profile as at 31 December 2020



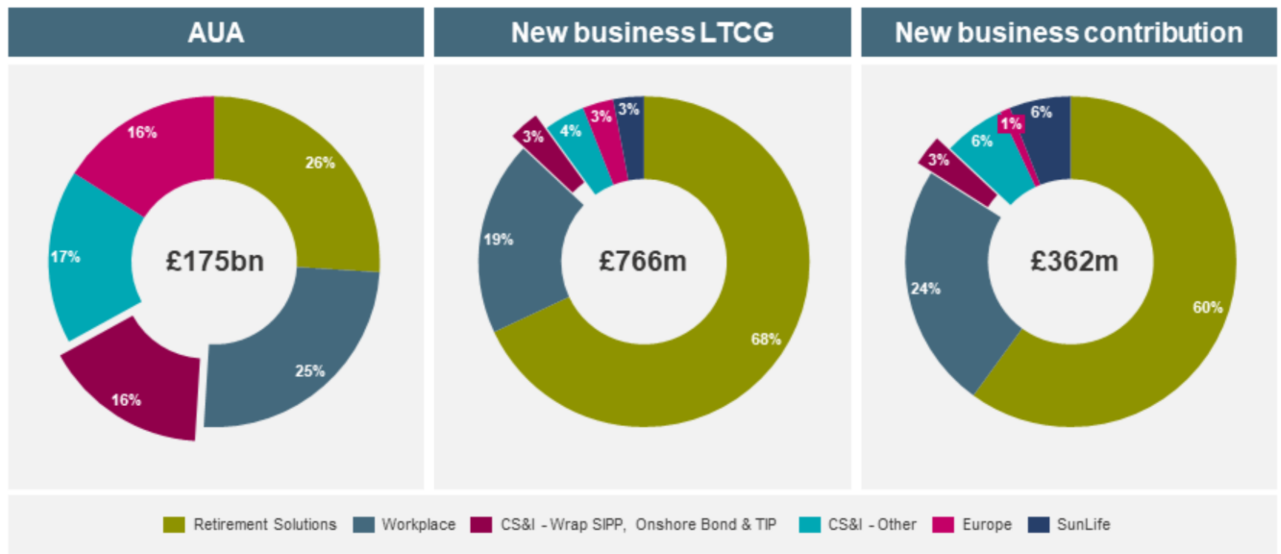
(1) Bond called and due for repayment on 25 March 2021.
(2) First call date.
(3) First reset date.
(4) All currency debt converted into GBP based on the closing 31 December 2020 exchange rates.

Appendix III: Movement in assets under administration

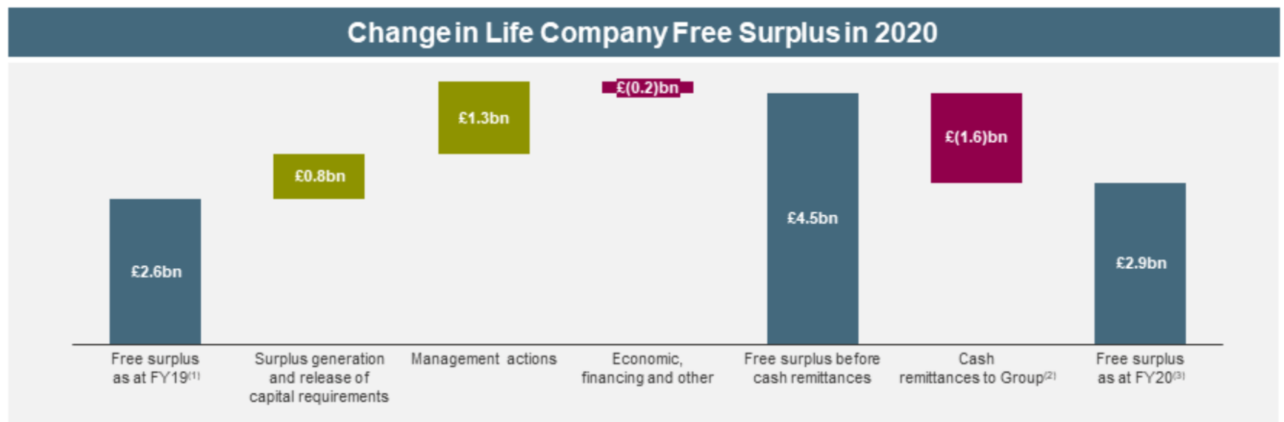


See Appendix XIII for footnotes

Appendix IV: Breakdown of Open business segments as at 31 December 2020



Appendix V: Change in Life Company Free Surplus

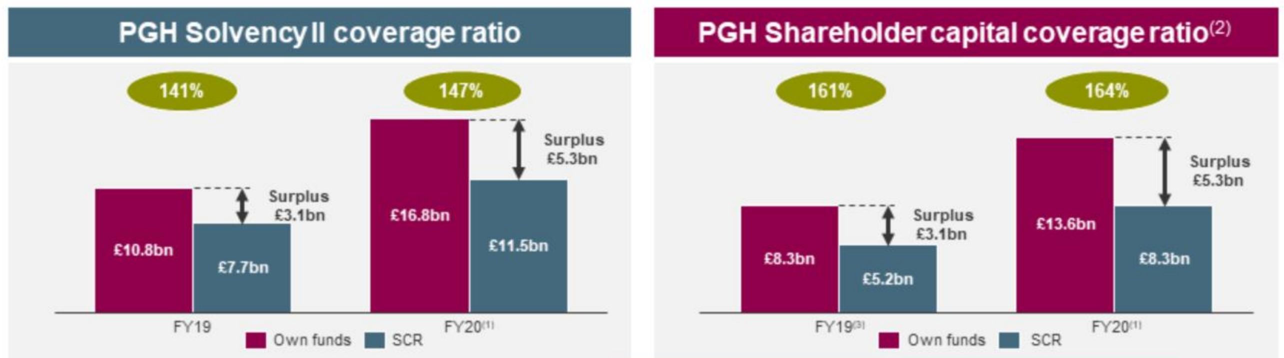


(1) The opening Life Company Free Surplus is a pro-forma position for the acquisition of ReAssure and reflects the impact of a regulator approved recalculation of transitionals as at 31 December 2019.

(2) Cash remitted excludes tax relief payments to Group.

(3) 31 December 2020 Life Company Free Surplus is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Life Company Free Surplus would decrease by £0.1 billion.

Appendix VI: Estimated PGH Solvency II surplus and coverage ratios

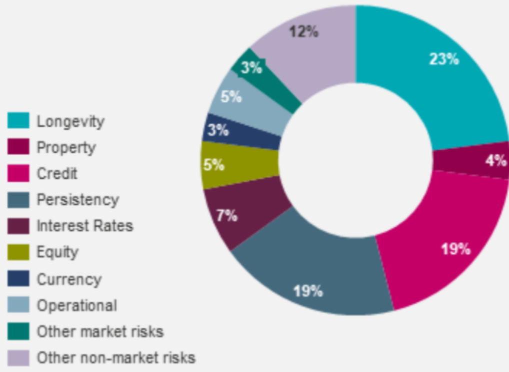


£bn	FY20	FY19
PGH Solvency II own funds	16.8	10.8
Less: Unsupported with-profit funds	(2.9)	(2.0)
Less: PGL and Pearl pension schemes	(0.3)	(0.5)
PGH Shareholder own funds	13.6	8.3

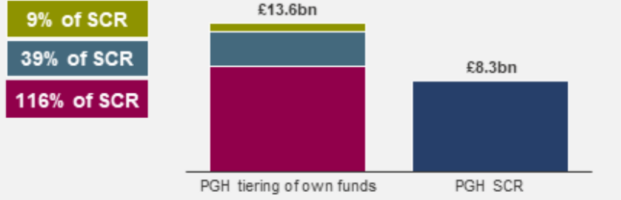
See Appendix XIII for footnotes

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

Estimated FY20 SCR by risk type[1]



FY20 PGH own funds by capital tier[2]



Share of SII own funds by capital tier

Own funds	£bn	%
Tier 1[3]	9.6	70
Tier 2	3.2	24
Tier 3	0.8	6
Total	**13.6**	**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 dynamic recalculation of transitionals as at 31 December 2020.
(3) Tier 1 includes £1.1 billion of Restricted Tier 1 capital at fair value.

Appendix VIII: Regulatory Capital Coverage Ratio sensitivities

PGH Solvency II Regulatory Capital Coverage Ratio (RCR) sensitivities[17]

	RCR	Impact on Solvency II surplus
FY20 Solvency II RCR	147%	£5.3bn
Equities: 20% fall in markets	147%	£(0.1)bn
Property: 12% fall in values[18]	145%	£(0.2)bn
Rates: 73bps rise in interest rates[19]	152%	£0.1bn
Rates: 88bps fall in interest rates[19]	141%	£(0.1)bn
Credit: 120bps spread widening[20]	147%	£(0.2)bn
Credit: 20% portfolio full letter downgrade[21]	141%	£(0.5)bn
Lapse: 10% increase/decrease in rates[22]	145%	£(0.3)bn
Longevity: 6 months increase[23]	139%	£(0.9)bn

See Appendix XIII for footnotes

Appendix IX: 2020 operating profit drivers

	Heritage	ReAssure	Open (including Europe)
Expected return	£347m	£217m	£181m
Experience	£(52)m	£(20)m	£(18)m
New business	£0m	N/A	£256m
Modelling & methodology	£(20)m	£8m	£(29)m
Assumptions[2]	£3m	£239m	£126m
Operating profit	£278m	£444m	£516m

Operating earnings per share[1] **98.8p**

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

(2) Assumption changes include benefit from updating longevity assumptions of £193 million in ReAssure, £30 million in Heritage and £146 million in Open.

Appendix X: Credit quality by sector for shareholder debt portfolio

Average credit rating by sector (FY20 vs FY19)

Sector	FY20	FY20 %	AA	A	BBB	Δ vs FY19
Industrials	£1.4bn	4%		● (FY19)	● (FY20)	↓
Consumer, cyclical	£1.2bn	3%		● (FY19) ● (FY20)		↔
Tech and Telecoms	£2.0bn	6%		● (FY20)	● (FY19)	↑
Consumer, non-cyclical	£2.4bn	7%		● (FY19) ● (FY20)		↔
Banks	£5.7bn	16%		● (FY19) ● (FY20)		↔
Financial Services	£1.0bn	3%		● (FY19) ● (FY20)		↔
Utilities	£4.0bn	11%		● (FY19) ● (FY20)		↔
Gilts /Sovereign/Supra/Sub-sov	£10.1bn	29%	● (FY19) ● (FY20)			↔
Real Estate	£3.5bn	10%		● (FY19) ● (FY20)		↔
Insurance	£1.1bn	3%		● (FY19) ● (FY20)		↔
Oil and gas	£0.6bn	2%		● (FY19) ● (FY20)		↔
Infrastructure	£1.6bn	4%			● (FY19) ● (FY20)	↔
Other	£0.6bn	2%		● (FY19) ● (FY20)		↔
Total	**£35.2bn**	**100%**				

Key: FY19 ● FY20 ●

Appendix XI: Sustainability performance ratings

Upgraded to 'A' from 'BBB' in August 2020 (Scale AAA to CCC)

Total score increased to 45 in November 2020, above an industry average of 39

FTSE4Good

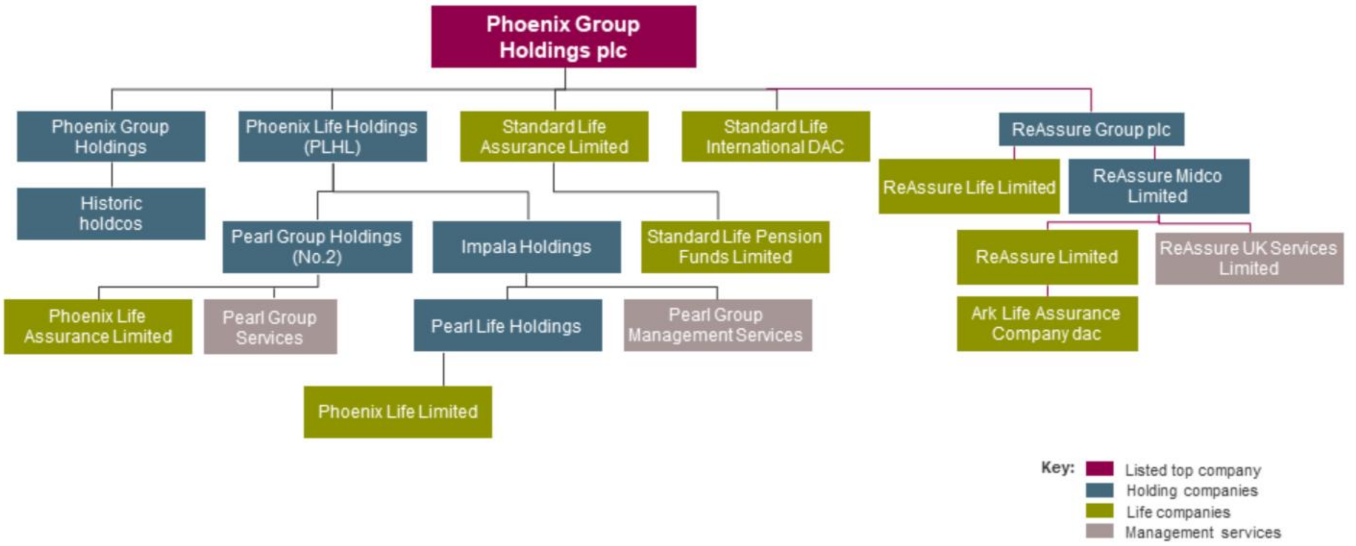
A proud member of the *FTSE4Good Index Series* since July 2019

Ranked 68th out of 267 in the insurance industry in September 2020, with risk a rating of 23.3

Ranked 34th in the *Responsibility 100 Index*, now leading the life sector

The Group became a formal supporter of and signatory to TCFD in 2020

Appendix XII: Corporate structure as at 31 December 2020



Appendix XIII: Footnotes

1) 31 December 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would decrease by £0.1 billion and 1% respectively.
2) The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes.
3) The 31 December 2019 Solvency II capital position is presented on a pro-forma basis, assuming the acquisition of ReAssure took place on 31 December 2019. It reflects a regulator approved recalculation of transitionals as at 31 December 2019.
4) 2019 figures have been restated to include SunLife incremental long-term cash generation of £8 million.
5) Dividends rebased to take into account the bonus element of rights issues. 2020 reflects the recommended 3% increase to the 2020 final dividend.
6) 'New business contribution' ("NBC") 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) 2019 NBC figures have been restated to include £8 million for SunLife and £33 million for Retirement Solutions.
8) Includes £690 million of cash remitted by the ReAssure life company in the period prior to completion and accruing to the Group under the locked-box acquisition completion mechanism.
9) £1.0 billion of operating costs and interest includes: Group operating expenses of £70 million including £33m in relation to the Group's pension schemes; integration costs of £150 million net of tax, split £103 million on Standard Life integration and £47 million on Reassure integration; and all interest costs on Group's listed debt and senior debt incurred.
10) £1.5 billion dividend cost based on dividend of 48.2p per share and annual cost of £481 million per annum.
11) 2019 pro-forma position to reflect inclusion of ReAssure.
12) 31 December 2020 position on a pro-forma basis to reflect the impact of the sale of Wrap SIPP, Onshore Bond and TIP products to SLA (£0.2bn) and the impact of the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget (£0.3bn).
13) £(0.1) billion 'Other' includes £0.2 billion from assumption changes offset by £(0.1) billion payment to SLA in respect of indemnities previously provided for and £(0.2) billion economics and other.
14) Includes all interest costs on Group shareholder debt from 2024 onwards.
15) 2019 Heritage and Open segments restated to move Retirement Solutions from Heritage to Open. Europe also now included with Open segment.
16) Shareholder debt included at principal value in 'proxy to shareholder value' calculation.
17) Scenario assumes stress occurs on 1 January 2021 and that there is no market recovery.

Appendix XIII: Footnotes (continued)

18) Property stress represents an overall average fall in property values of 12%.
19) Assumes the impact of a dynamic recalculation of transitionals (subject to PRA approval) 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.
20) 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 (subject to PRA approval) and makes no allowance for the cost of defaults/downgrades.
21) 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.
22) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
23) Applied to the annuity portfolio.
24) New business strain comprises BPA £(192) million (pre capital management policy), vesting annuities £(16) million, £(2) million across Workplace and CS&I, Europe £(17) million, with an offsetting £10m in SunLife.
25) Target costs synergies of £50 million (previous target £40 million) are capitalised over 10 years equating to £500 million target.
26) Cost synergies delivered to date reflect actual reduction in underlying cost base. SLAL cost synergy targets and delivered are shown gross of costs. ReAssure cost synergy targets and delivered are shown net of costs.
27) Integration costs incurred to date excludes amounts provided for and reflects actual costs incurred to date.
28) Synergy value includes capital synergies plus capitalised cost synergies (over 10 years), plus one-off costs, less integration costs, all of which are net of tax.
29) 6% market share calculated as £1.8 billion premiums in 2020 on external deals as a percentage of £30 billion BPA market flows, with source of £30 billion market flows being LCP report dated 18 January 2021.
30) Average payback period excludes capital management policy.

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