Y 2017 Earnings Call

Company Participants

- Andy Moss, Chief Executive of Phoenix Life
- Clive Christopher Roger Bannister, Group CEO & Director
- Henry Eric Staunton, Chairman of the Board
- James McConville, Group Finance Director & Director

Other Participants

- Andrew John Crean, Managing Partner, Insurance
- Andrew Sinclair, VP
- Angel Parasotam Kansagra, Analyst
- Ashik Musaddi, Executive Director and Co
- Gordon Aitken, Analyst
- Oliver George Nigel Steel, MD

Presentation

Henry Eric Staunton {BIO 1520566 <GO>}

Good morning, ladies and gentlemen. Welcome to the group's 2017 results presentation. I'm joined on the podium by Clive Bannister, our Group CEO; Jim McConville, our CFO; and Andy Moss, CEO of Phoenix Life.

2017 was another successful year for the group, in which we delivered strong financial performance and substantially completed the integration of the businesses acquired during 2016. This demonstrates the strength of Phoenix's specialist operating model. 2018 will be a transformational year for Phoenix.

On the 23rd of February, we announced our plans to acquire Standard Life Assurance and enter into a strategic partnership with Standard Life Aberdeen. This transaction is fully aligned to Phoenix's strategy and will make us the largest closed life consolidator in Europe. These acquisitions have enabled us to increase our dividend from an annualized amount of about GBP 120 million in 2015 to an expected GBP 338 million in 2019.

I'll now pass you over to Clive who'll provide you with a detailed business update.

Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Good morning, everybody. And thank you, Henry. 2017 has been a successful year for the group, with strong financial performance across each of our key metrics. We have already updated you on our 2017 cash generation of GBP 653 million, which included significant contributions from the acquired businesses of both AXA and Abbey Life. We have improved our capital resilience through the restructuring of our debt, increasing our group Solvency II surplus. In July 2017, Fitch upgraded the group's life companies' rating to A+ and this rating has been reaffirmed by Fitch following announcement of the Standard Life transaction. As Henry mentioned, we have substantially completed the integration of AXA and Abbey Life. And the expected synergies from these acquisitions are ahead of our original targets.

The final 2017 dividend has been increased to 25.1p per share. This amounts to an annual level of 50.2p per share, a stable and sustainable level. We have announced our commitment to increase this dividend further, following the successful completion of the Standard Life transaction.

During 2017, Phoenix focused on the integration of the businesses we acquired during 2016. As I speak today, these integrations are substantially complete and have delivered synergies ahead of target. Andy will talk in more detail about the work we have undertaken to integrate both businesses. But I wanted to recognize the achievements made against our key metrics. We have already delivered GBP 518 million of cash generation from the AXA and Abbey Life businesses and cost synergies of GBP 27 million against our original expected synergy target of only GBP 17 million. The move to our target operating model will be completed at the end of the First Quarter of 2018 ahead of plan.

On Friday, the 23rd of February, we updated the market on our expectations for future cash generation, signaling that we expect to be at the upper end of our 2-year target of between GBP 1 billion and GBP 1.2 billion. We also announced a new 5-year cash generation target of GBP 2.5 billion. Beyond 2023, we anticipate a further GBP 3.8 billion of cash generation from a run-off of the Phoenix alone book. The acquisition of Standard Life Assurance is expected to bring further cash generation of GBP 5.5 billion, which will provide increased sustainability to the long-term cash profile of the group. Jim will talk more about this cash profile in a few minutes' time.

In June 2017, we described our plans to move into the BPA market; and on the 23rd of February, I was delighted to announce that we were currently in exclusive discussions on our first BPA transaction. We expect this transaction to be completed shortly. We only look at BPA transactions through an accretive lens. And any transaction will be proportionate, selected carefully and funded through our own existing resources.

I will now pass you on to Jim, who will take you through, in greater detail, our numbers.

James McConville {BIO 3743391 <GO>}

Thank you, Clive. Good morning, everyone. 2017 has been a successful year for Phoenix. And this is highlighted with a strong set of financial results. I'll take you through each of the key metrics in more detail shortly. But let me set out in summary the key results.

Strong cash generation of GBP 653 million during the year, including GBP 401 million from the acquired AXA and Abbey Life businesses. Holding company cash as at the end of 2017 of GBP 535 million. PGH group Solvency II surplus of GBP 1.8 billion and a shareholder capital coverage ratio of 164%. IFRS operating profits of GBP 368 million, life company assets under management of GBP 74 billion and a final dividend for 2017 of 25.1p per share, which is reflected in the reported solvency positions.

The cash generation from Phoenix Life for 2017 was GBP 653 million. This includes GBP 165 million from the ex-AXA businesses, GBP 236 million from our Abbey Life and GBP 252 million from the other operating companies. The AXA cash release largely resulted from the inclusion of the ex-AXA Wealth business onto our Internal Model in the First Quarter of 2017. During the Fourth Quarter of 2017, we completed the Part VII transfer of this business to Phoenix Life Limited. As a result, we will no longer separately report cash generation from this business. In December 2017, we reinsured the majority of the Abbey Life business into Phoenix Life Limited. This supported a cash release of GBP 162 million, which took total cash generation from the Abbey Life business during 2017 to GBP 236 million.

With regards to the uses of cash, the increase in pension scheme contributions during the year is driven primarily by a one-off contribution of GBP 25 million made to the Abbey Life Staff Pension Scheme. In addition, the move from annual to monthly contributions to the Pearl Pension Scheme has resulted in an additional GBP 10 million of contributions during the calendar year, representing an acceleration of our agreed payments. Nonrecurring outflows consist of project costs associated with acquisition integration expenses and costs associated with hedging. Debt interest is slightly higher than the previous year, reflecting the higher coupon payable on hybrid debt issued during the year, which has more than offset the impact of lower debt principal balances debt principal balances following repayments. The Tier 3 and Tier 2 bond issues completed during 2017 raised net proceeds of GBP 830 million. The proceeds from these debt issues as well as funds from our existing resources were used to repurchase GBP 178 million of our senior bonds and to repay in full the revolving credit facility so that at year-end it was completely undrawn. Finally, we ended 2017 with GBP 535 million of cash at the holding company level.

We communicated the progress made on our debt strategy when announcing our half year results. We now have a more appropriate funding structure for the group and the majority -- the maturity profile better matches the underlying cash generation of the business. Fitch upgraded its ratings for the group in July with Phoenix's main life companies having a rating of A+. Fitch has also considered the impact of the proposed Standard Life transaction and reaffirmed our ratings with a stable outlook. The work completed to bring the group onshore has progressed well. The head office became U.K. tax resident on 31st January 2018 and the governance structure has been simplified. Solvency II reporting will now be completed only at the level of the PGH Group. The final stage of the onshoring process will be the establishment of a new U.K. holding company. It remains our intention to complete this final stage as soon as possible after the completion of the acquisition of Standard Life Assurance.

So moving onto the PGH Solvency II position. As of the start of 2017, the surplus at PGH was GBP 1.1 billion, which included the pro forma impacts of the GBP 300 million Tier 3 issue in January and the incorporation of the AXA business into the group's Internal Model. The surplus at the end of the year has increased to GBP 1.8 billion, with a shareholder capital coverage ratio of 164%. The year-end position anticipates the final 2017 dividend of GBP 99 million payable in May. As we have discussed previously, there are an additional GBP 0.6 billion of unrecognized surpluses relating to the group's strong with-profit funds and the PGL Pension Schemes. These surpluses are not included in the overall Solvency II surplus but do provide the group with an additional resilience in a stress scenario. On 1st March, we received approval from the PRA to bring Abbey Life Assurance Company Limited onto the group's Internal Model. This returns the group to a Full Internal Model with no business remaining on the Standard Formula basis. The additional benefit of around GBP 40 million associated with this approval will be reported in the 2018 results.

This slide provides more details on how the Solvency II surplus has changed over the course of 2017. The increase in the surplus has been driven by positive impacts from management actions and the subordinated bond issues. Andy will take you through the management actions shortly. These effects have been partly offset by negative impacts of economic and other variances, the costs of the senior bond tender, the workplace pensions' management fee cap and the dividend payments over the year. The group's solvency II position remains resilient. This partly is a result of the additional surpluses within the strong with-profit funds and PGL Pension Scheme, together with the hedging actions that we carry out, designed to protect the group's solvency position. And therefore, our future cash generation. The group's more significant sensitivities are to increase longevity on our annuity portfolio and the widening of credit spreads. It is important to note that on our expected cash flows there are broadly similar impacts. Any detrimental impact on our life company Solvency II position directly reduces the free surplus that is available to distribute up to the holding companies as cash. Therefore, there is a direct and immediate impact on the cash generation from these stress scenarios. As at the year-end, the group had limited sensitivity to equity markets. And following the announcement of the acquisition of Standard Life Assurance, hedging actions have been taken to mitigate the group's exposure of the acquired Standard Life Value of In-Force to equity risk.

This slide shows the group's operating profit, which was GBP 368 million for the year, slightly up on 2016. The Phoenix Life operating profit of GBP 388 million has been enhanced by assumption changes. As reported at the half year, we have incorporated CMI 16 into our reserving assumptions; and the resulting release, together with positive impacts from reduced life company expenses, have more than offset the negative impacts of persistency experience for products with guarantees. Group costs were higher in 2017, primarily as a result of increased pension scheme charges. As stated earlier, our hedging strategy is designed to protect our solvency position but introduces an element of volatility in our IFRS results. Losses on the equity put options and swaptions held to protect the solvency exposure of the group to equity and interest rate risk have led to a negative investment return overall. Nonoperating items include a (GBP 25 million) impact from the tender for the senior bond and a GBP 27 million impact of the management fee cap relating to workplace pensions.

Moving on to cash generation. I appreciate that many of you will be familiar with this slide, which I presented to you on 23rd February. Total cash flows of GBP 5.5 billion are expected to be generated from Standard Life Assurance's in-force book, which will increase the combined group cash generation to GBP 11.8 billion. As you will note, the cash generation profile of the Standard Life business is more long-dated from that of the legacy book. This is primarily driven by the fact that Standard Life Assurance book has continued to be open to business, whereas the legacy books of Phoenix closed many years ago. As a result, the duration of the acquired cash flows is longer than that of Phoenix. In addition, the cost associated with moving the Irish and German business of Standard Life Assurance from branches to subsidiaries through a Part VII transfer and readiness for Brexit is doing an element of cash generation from earlier to later periods.

This slide shows the sources and uses of cash for the combined group over the period to the end of 2022. As Clive mentioned, we have updated our long-term cash generation target between 2018 and 2022 to GBP 2.5 billion. We have also announced that we expect Standard Life Assurance to generate cash flows of GBP 1 billion over this period. This cash generation is shown in the green bars on the chart and is additive to the opening holding company cash position at the end of 2017 of GBP 0.5 billion. Moving along to the right, we show the various usages of that cash. Pension scheme contributions, including our funding commitments to the Pearl and Abbey Life Pension Scheme period over the period, the PGL Scheme is now fully funded. The analysis assumes that the dividend has increased from the time of the 2018 final dividend to an annualized amount of GBP 338 million. After these uses, the cash we are left with, with an illustrative GBP 1.3 billion of cash at the holding companies as at 2022. And over the coming years, this accumulation of cash balance positions the group to potentially deploy more of its own resources for future acquisitions or to support BPA transactions.

This slide follows on from the previous one, showing the position for the combined group for -- from 2023. There is a significant expected cash flow over the longer term, with the acquisition adding GBP 4.5 billion to Phoenix's existing expectations of GBP 3.8 billion. These longer-term cash flows do not assume any management actions nor do they assume any value from the new business generated through the strategic partnership with Standard Life Aberdeen. Holding company cash of GBP 7 billion will be used to meet interest and head office costs and to service the dividend. The acquisition, therefore, provides significant additional durability to the dividend and supports our stated stable and sustainable dividend policy.

I would now pass you onto Andy, who will talk more about the achievements of Phoenix Life in 2017.

Andy Moss {BIO 19123183 <GO>}

Thank you, Jim. Good morning, everyone. 2017 was a very busy year for Phoenix Life, in which we have substantially completed the integration of both AXA and Abbey Life, delivering cost synergies and cash flows ahead of target. We've also delivered a number of management actions, which have added GBP 553 million to Solvency II surplus and supported our ability to meet our cash generation targets in 2017 and in future years. From a customer perspective, we continue to invest in digitalization to improve customer communication and engagement and reduce conduct risk and cost. In addition, all of our service levels across both internal and external metrics remain within target.

Our integration plans for AXA and Abbey have focused on moving the acquired businesses onto Phoenix's target operating model and harmonizing the approach to capital and risk management. These integration activities underpin the delivery of both the cash generation and cost synergy targets. For AXA, our integration activity is now substantially complete, generating cost synergies of GBP 17 million per annum, well ahead of our original target of GBP 10 million per annum; and enabling us to deliver GBP 282 million of cash from the acquisition to date. Integral to this integration has been the establishment of SunLife as an independent distributor based in Bristol. I will talk more about this business model shortly.

The migration of all core functions to Wythall was completed during the year and the outsourcing of policy administration for the AXA business became fully operational with Diligenta and FNZ on the 1st of January, 2018.

On the capital side, we have accessed significant diversification benefits with the mortality exposure of the SunLife business offering the group's existing longevity exposure from its annuity liabilities. In March, the acquired business was incorporated into the group's Solvency II Internal Model and the policies were legally transferred to Phoenix Life Limited by our Part VII transfer during the Fourth Quarter of 2017.

In 2017, we have completed our work to establish SunLife as a distribution business, which continues to be based in Bristol and has 121 employees. The SunLife operation is responsible for the advertising and direct sales of over 50s products, for which it has a 45% market share. These are manufactured and administered by Phoenix Life. While smaller in scale, this operating model is similar to the one that we intend to use under the strategic partnership with Standard Life Aberdeen. Under this arrangement, Phoenix Life will provide white-label manufacture and policy administration for workplace pensions, self-invested personal pensions and drawdown products branded by Standard Life.

Moving onto the Abbey Life transaction. This integration is also substantially complete and will deliver cost synergies of GBP 10 million per annum, ahead of the original GBP 7 million per annum target. GBP 236 billion of cash was generated from the business in the year towards the GBP 0.5 billion target to the end of 2020. The operating model of Abbey Life was already closely aligned to Phoenix target operating model, with an existing outsource agreement in place with Capita. Our initial focus was to put in place governance and management quickly, ensuring the oversight of the business and its outsourcing arrangements were enhanced. The migration of all functions to Wythall will complete by the end of April. The Abbey Life business was reassured into Phoenix Life Limited in December 2017. This reinsurance allowed the group to access transitional benefits on the Abbey Life business. It also provided efficiencies from the annuity portfolio by extending the Matching Adjustment approvals of Phoenix Life to all of Abbey Life's qualifying annuity liabilities. In the Fourth Quarter of 2017, we submitted our application to move Abbey Life onto the group's Internal Model. This application was approved on the 1st of March.

Management actions broadly fall into 2 categories on the Solvency II. Those that increase Solvency II own funds and, hence, increase the total quantum of cash flows emerging from the business; and those that reduce the SCR and, hence, allow an acceleration of cash that would otherwise have been expected to emerge over time. Management actions added a total of GBP 553 million to our Solvency II surplus in 2017. Those management actions that have increased own funds by GBP 321 million include the benefit of investing in illiquid assets, lower expenses for the life companies, which has been possible due to the economies of scale from the enlarged business. And also from the Part VII transfer of AXA policies to Phoenix Life Limited. Long-term illiquid assets return a higher yield for shareholders and better match the duration of long-dated annuity liabilities. During the year, we have increased our shareholder asset allocation to illiquid assets from round about 6% to circa 15%. And this has primarily been driven through an increased holding of equity release mortgages obtained through both back book acquisitions and ongoing sourcing. Finally, the GBP 232 million of management actions accelerated cash flows included the AXA Internal Model approval, hedging actions and credit optimization.

We continue to be committed to delivering a high level of service and engagement to our customers. We are currently investing in online capabilities to connect digitally with as many customers as possible. Not only will this improve customer communication but it will help ease processing for customers and reduce costs. Our digital offering has been developed in cooperation with our outsource partners and would enable customers to better understand the Phoenix policies and make more informed decisions. Central to this Digital Vision in 2017 has been the offer of online encashment for smaller pension pots to over 55s. This offering is being well received with 23% of eligible customers completing the transaction online. Another area of focus for us in 2017 has been the development of a Dedicated Advisor unit to support the IFA business within AXA Wealth. Regular feedback has been sought from advisors throughout the process of migration to Phoenix. This feedback from advisors has been positive and has translated into persistency experience which is better than expected. Maintaining these strong service levels for IFAs and for employers for workplace pensions business will be a key area of focus for the acquired Standard Life Assurance business.

We continue to innovate so that we can deliver wider options to our customers. During 2017, we launched an initiative to buy out customers with small annuities-in-payment. This offers customers real optionality in their retirement journey. By the end of April, we expect to have contacted 16,000 customers and are anticipating an eventual take-out rate of around 70%. The table on the right-hand side of the slide sets out our key customer metrics, which are a combination of internal and industry metrics. I am happy to report that we met all of these targets in 2017 and our FOS overturn rate is our best ever.

Phoenix has continued to be active in progressing the work required in response to the Abbey Life annuities review and legacy enforcement action. The indemnity with Deutsche Bank provides protection against the outcomes from these ongoing reviews and our current assessment of the associated settlement and restitution costs are within original expectations. We continue to process PA(GI) creditor insurance claims with the deadline for claims set by the FCA for August 2019. The provision for claims has been increased to GBP 40 million but has been offset by the recognition of a corresponding reimbursement asset of GBP 32 million. This asset represents recoveries due from third parties under contractual arrangements and limits the group's downside exposure to this risk. Finally, the regulatory landscape remains fast paced, with a number of FCA publications and consultations under consideration. We continue to actively review customer outcomes. And as a result, we believe Phoenix is well placed to respond to regulatory change.

I will now pass you back to Clive.

Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Thank you, Andy. On the 23rd of February, we announced our plans to acquire Standard Life Assurance. And that was the European -- U.K. and European life businesses. And enter into a new strategic partnership with Standard Life Aberdeen. Thus, this deal is both a transaction and a marriage. The strategic rationale for the proposed transaction is simple. It allows both of us to focus on what we do best. Phoenix will become the preeminent closed life consolidator in Europe and Standard Life Aberdeen will focus on its world-class investment management business.

The Standard Life Aberdeen transaction is fully aligned to the Phoenix strategy and it is financially compelling. It is value accretive, giving us GBP 5.5 billion of cash generation, which will not only enable us to increase our dividend but will also significantly enhance the sustainability of these dividends. It delivers Scale, with capital S, in an industry that rewards scale. And we believe this Scale will enable us to deliver cost and capital synergies of around GBP 720 million.

We have future opportunities. First in the form of asset growth generated from the strategic partnership. And second, as the transaction provides us with a base in Europe, which we can leverage in taking forward a European growth strategy. Finally, it is a strategic partnership between 2 companies whose objectives are aligned and it is embedded through a 19.99% strategic stake by them in us.

Phoenix has long seen the potential in Europe. The acquisition provides an existing European base in both Germany and Ireland. The European closed life market is still very nascent. But it offers an additional avenue to create value for Phoenix shareholders in the future. We believe that there remains a market opportunity of around GBP 380 billion in the U.K., that is up GBP 80 billion from our original estimate of GBP 300 billion; and Germany and Ireland add an additional GBP 160 billion of assets to an overall total market potential of GBP 540 billion.

Looking to the future. Phoenix remains focused on its strategy of delivering value from closed books. The bifurcation of our industry that we are seeing today, particularly yesterday, supports this strategy. We will continue to seek selective transactions in the bulk annuity market. We will continue to write annuities for our own policyholders as well as over 50s protection through products delivered by SunLife. These are complementary capital like products providing a natural longevity hedge for the group. In addition to the new business written by the existing German and Irish businesses, our new strategic partnership offers the opportunity to generate future assets and cash flows on a white-label basis. Whilst we have placed no value on this business in the cash flows that Jim has just presented, asset growth through this arrangement will act as a natural dampener to the run-off of our closed life book. In summary, some transactions make you bigger, some transactions make you better. This is one of those very unusual transactions that makes us both bigger and better.

I close today by setting out our strategic priorities for 2018. Cash generation continues to be our key metric as it underpins our stable and sustainable dividend. We are clearly on track to be at the top end of our GBP 1 billion to GBP 1.2 billion target for 2017 and 2018. We will obviously be working closely with our colleagues at Standard Life Assurance to progress the change in control application process and expect to complete the transaction in the Third Quarter of 2018. Customers will always remain a key priority for the group. And in 2018, we will further develop our digital proposition, as Andy talked about, which will improve our customer communication. The work to simplify our group's structure, as Jim described, is largely complete and the final stage of our onshoring work will be undertaken as soon as practicable, following the completion of the Standard Life transaction. Whilst our primary focus in 2018 will naturally be upon the completion of the Standard Life Assurance transaction, we will continue to examine (technical difficulty) I had one sentence to go, saying, whilst we are naturally focused on making sure that we land safely, change of control in transitioning of the Standard Life Assurance transaction, we are of course focused on other opportunities in the M&A environment.

So that is the end of the formal presentation. So ladies and gentlemen, we move onto the Q&A. This is where -- wait for a microphone. I'm looking at my back, we're just carrying on, we're just carrying on. So wait for a microphone to be brought to you, give us the name or your name and the name of the institution you represent. And then the Chairman will give all the difficult questions to Jim and the impossible questions to Andy. (technical difficulty)

Questions And Answers

Operator

(Operator Instructions)

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. Three questions, please. First, Prudential (inaudible) redress provision GBP 175 million, doubled it to more than, (what, GBP 400 million). You talked about the Abbey Life provision. And the Standard Life also had a GBP 175 million provision. Now if the provision has to be increased, who picks up the (TAT) for that? And second on -- there's obviously been mortalities or a slowdown in life expectancy in the U.K.. So there will be gains coming. I'm just wondering on part of the Standard Life acquisition, who gets the gains? I mean. And really what table was used when you priced the Standard Life book, because if it was CMI 15 and we obviously know what CMI 16 and CMI 17 looks like. We've got a pretty good insight into what CMI 18 will look like. Does that mean the price you paid was effectively a good chunk or will be a good chunk lower than that's stated? And finally on workplace pensions and the SIPP business, I mean I was surprised when these were included in that Standard Life transaction. If you did want to sell those, could you?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Thanks, Gordon. Just in terms -- what you're thinking about just to say in terms of Standard Life provisions, you're quite right, they were GBP 175 million, they were increased by (GBP 100 million). And that's in the numbers. And the use of about GBP 25 million, which means it's a net GBP 75 million increase and we do have indemnities in that area as we did with Abbey Life as you know. Do you want to pick up? Anything you'd both pick up?

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

So I'll do indemnities, will you take, please, the CMI issue? I mean, you know about the workplace pensions and how we're dealing with that going forward. So of course, we're well aware there were 2 players in terms of the annuities, one was Standard Life and one was the Pru. This is territory that we understand well and you can imagine that it was a focus of the due diligence that we completed. And therefore, we have made appropriate considerations, both in terms of the price paid and the indebtedness sought.

A - James McConville {BIO 3743391 <GO>}

On the use of the CMI tables. So just to confirm, Phoenix uses the CMI 16 table. So we are up to date with the tables that have been published. Standard Life use their own data primarily to establish their annuity provisions. But their latest position reflects their latest experience and so you can consider that as also up to date.

A - Andy Moss {BIO 19123183 <GO>}

Then on workplace and SIPP, I think we see this as a key part of the strategic partnership. We will have an arrangement in place with Aberdeen Standard for the exclusive manufacture of those product. So we see this is continuing to be a key part of our offering going forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JPMorgan. Just 2, 3 questions. First of all, how should we think about movement of your assets, I mean, liquid assets into illiquid asset? How does that create strain, capital strain? Can you give us some clarity? If you shift (GBP 1 billion) to illiquid asset, what does it do? Secondly, you still have like north of 55% of your shareholder assets in gilts, cash, supranational bonds. I doubt that, that a lot of U.K. companies have that much in gilts, I mean, low risk assets. So what is the potential you see in your book to keep on shifting these assets into illiquid, or say a bit more high yielding assets? So that would be the second one. And the third one, you mentioned -- I mean, SunLife is still generating some new business. Can you give us some color about what volumes, I mean, in terms of premiums, profits, anything that is coming on top of your guided numbers already?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Andy, why don't you?

A - Andy Moss {BIO 19123183 <GO>}

Let me do the SunLife one first. So we sold just over 100,000 whole of life funds within SunLife last year. We also distribute third party products to the over 50s market as well. On the whole of life product, we have a sort of (annual premium driven of) about GBP 25 million. And that's currently producing round about GBP 5 million of bottom line profit for us at the moment. In terms of the illiquid assets, I think, as I said in the presentation, we've moved out from round about 6% to 15%. We do have a longer-term target on our annuity assets to get between 30% and 40%. And obviously that, for us, gives us overall a high yield but also from diversifying our overall portfolio. It's actually quite capital efficient for us as well.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

And you had a third part of the question, Ashik. Was there any appetite to change our bond and credit and going to higher yield and taking on commensurate it either rewarded or unrewarded risk. I think we've thought about that hard and the strategic allocation process of the Dublin takes us from about GBP 3 billion to about GBP 5 billion. And we're doing it in measured way. So it's ERM, it's local authority loans, it's commercial real estate and touching at the edge of infrastructure. And that's where our appetite stops and that is principally involving our own shareholder funds and with the life companies where -- and your funds. The risk profile we've taken is appropriate for the nature of the assets in the policyholders that we wish to serve every time. So there's not going to be a change in our risk appetite for the assets you've made reference to.

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean speaking. Can I ask 3 questions as well? Firstly, you said that by 2022 the holding company cash would be about GBP 1.3 billion. How much holding company cash do you need to hold as a group? What's the policy around that liquidity? Secondly, I suppose this is something of the winner's curse. I mean, winning Standard Life means that you're so large that...

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Large in what criteria, Andrew?

Q - Andrew John Crean {BIO 16513202 <GO>}

Well in terms of assets and in profitability. The number of further consolidation deals to be done, the U.K. must have shrunk just purely because they wouldn't make a difference. Could you give us some idea as to how many targets now are relevantly in your -- on your radar screen? Then thirdly, cost synergies. I think -- not in this presentation but the one late February, I think you capitalized the cost synergies benefits, they were about GBP 50 million pretax, GBP 40 million net of tax. And you capitalize them over 10 years at GBP 415 million or so. I was wondering how that worked as to whether -- you will go into more detail as to where the cost synergies are coming, what you're not assuming, because this is quite a substantial target which you could yield quite a lot of cost synergies out of?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Why don't you talk about the cost synergies and come back to the strategic issues on the acquisitions, Clive, okay?

A - James McConville {BIO 3743391 <GO>}

Well into the cost synergies, first. So what we mentioned on the 23rd was cost synergies of GBP 415 million, which was a capitalized number over 10 years that represented the equivalent of GBP 50 million pretax. And that was out of a combined cost base of -- in excess of GBP 600 million. Then once you strip out the European businesses, because they are standalone with no equivalent Phoenix business, the sort of shareable cost base is around about over GBP 500 million. So the savings represented some 8% of the relevant combined cost base. And where these come from is really doing what you would expect us to do. First of all, putting the management of the life companies together; secondly, looking at the support functions for the 2 life company operations and harmonizing these where appropriate; and finally, in terms of opportunity, we need to look at whether we make more use of our outsourced model or make more use indeed of Standard Life's in-source model. But in the numbers that we have presented, we have not put in any significant savings for the opportunity.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

And Jim, would you answer the first question, which was about the nature of your war chest, just how much money do you need lying around? That is what Andrew is asking.

Q - Andrew John Crean {BIO 16513202 <GO>}

Yes. Indeed.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

And I think that goes back to the slide where we talk about resources and apps. And it goes from about GBP 535 million holdco cash today, building up to GBP 1.3 billion. And then thereafter to 2023 a much larger number.

A - James McConville {BIO 3743391 <GO>}

Yes. So if you remember past presentations, Andrew, we've spoken about having a war chest of around GBP 500 million available. To support further acquisitions, we will obviously be utilizing some of our war chest to support the Standard Life acquisition as we have previously described. But thereafter, as the business progresses, it will start to build up again. And indeed you will see the end of the five years. We see the amount building up to GBP 1.3 billion. So Phoenix as a standalone business, we have GBP 950 million undrawn RCF and we have the GBP 500 million of cash. We have more than sufficient liquidity for our needs. The minimum liquidity requirement we need is a fraction of that total amount. So there is no shortage of liquidity and a substantial proportion of that GBP 1.3 billion at end of five years could be available to support BPA or further M&A deals.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Then you asked an impossible question, Andrew, about what is the market remaining. So I don't have a crystal ball. But I am robust in my belief that there's a cyclical change. The events of yesterday just confirm it. So the tectonic plates of our industry are changing. And you -- we think that the overall size of that in the closed life. So it's just all closed life in the U.K. before we talk about BPA and before we talk about Europe is GBP 380 billion and we've taken that up. And outside this meeting, we can go through the component parts of it. What is intriguing for me is, three years ago we put up a pie chart and we said that half of the owners of these legacy historic closed books were U.K. insurance companies, about 30% were foreign insurance companies in the U.K. and then about 10% to 20% were banks. So if you look at the 3 deals we've done since '16, they've come out of each of those pots. We started with a foreign insurer saying they wanted to direct their assets towards the GI market, that is AXA, they haven't left the U.K., they just repositioned it. A deal we paid (GBP 3,754 million), we've got (GBP 283 million) already out from that transaction. The next one was a bank. Deutsche Bank decided that they didn't want to have capital committed to a legacy business. Then here we have a U.K. insurance company redeploying it. So I don't have a crystal ball for when and how much. But I am absolutely certain that there are boardrooms that thinking hard about which way their capital is phasing. The seminal event that took place and there are 2 big drivers to the change of our industry. One, the starting gun was set off by (George Osbow). He gave clients choice. So the capital that was mandatorily fixed behind paying for annuities can now be put against a DC rather than some DB environment. That's not stopping anytime soon. And especially with auto enrollment and the freedoms that come with that. It is a DC, it a fee-based, fee-riched environment, which is why our strategic partnership is so seminal because we still get the opportunity of benefiting from Standard Life Aberdeen's success in that area. The second one was the re-pricing of capital in 2016, which was made reference to in yesterday's presentation by Solvency II. And that's not going away anytime soon. So I think this is inexorable. Then part of your question was, well, are you going to run out of road of any big ones versus little ones? I had a wise Irish grandmother and she said never ignore the pen is at your feet, looking at the (inaudible). And so I am completely convinced that there are going to be. But plethora is the wrong word. But there will be sufficient small and medium size deals. And there maybe whales out there yet to come that I can't identify. But that gives us a very sustainable future as a growing business in the U.K. Then I'm going to answer the question, (a Finnish) question very quickly. We then look to a place called BPA. Many people give you statistics, GBP 550 billion of assets to be transferred in the next 15 years. It's enormous. There is the very big bulk end and there is the vesting annuities. It's a spectrum. We do on average -- we did GBP 529 million vesting annuities last year, GBP 540 million the year before that, GBP 500 million or GBP 486 million the year before that. We think, with our business with Standard Life, we'll be another GBP 200 million. So we're in the annuity business. That is a great business and builds our ability to pay -- extend our dividend-paying capability. Then we can acquire annuities by buying deals as we did with Abbey Life, 1/3 of that, GBP 3.5 billion of that was in annuity; and then in the BPA space, as we've advertised, we're looking at that. We looked at 7 transactions last year, we did 1. Immensely selective, proportionate, which means small in my category, using Jim's war chest. So we're never going to come to shareholders for it. And it has to meet the criteria of being accretive, sustaining the dividend and our investment grade rating. So there's some portion of that GBP 550 billion, which is available and then there's new environment called Ireland. And I have Ireland and Germany in terms of closed life. We've priced that, or we see the market at about GBP 160 billion, who knows? So we don't think we're running out of time -- road anytime soon. And actually we see the tide coming towards us in the fact that boards are now contemplating which way their capital is phasing. And it is not, in my opinion, correctly aligned in many of the businesses against the strategic objectives of getting into the wealth management business and capital like business. Apologies. Long answer. Oliver?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions. The first is, I suppose sort of building on Andrew's question. There are a number of sort of smaller deals potentially out there over the next 12 months, let's say. Ignoring the cash, do you actually have the management capacity to take on those deals in the next, say, 12 months? Actually, I'm going to make it 3 questions.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Vibrate the habits of a morning. Let's just -- everybody has asked for 3.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

So the second question linked to that is, if there are a plentiful number of small deals available in the future, do you have the management capacity to do, say, more than 1 a year of those smaller deals? Because I thought it's getting around Andrew's question about relevance, you just have to do them more frequently. Then the third question is about the German and Irish cost. Is that in the GBP 135 million, or is that deducted of the cash flow that you're expecting from Standard Life over the next 4, five years?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Shall I just touch on the management one to start with? Firstly, we did do 2 deals in 2016, AXA and Abbey. And we -- and the management team succeeded in doing that. We have got with -- at Standard Life in Scotland, we've got huge expertise and talent there that is now part of our group and part of our management team. And when you talk about things like BPA, have you got the management do it? We already do GBP 11 billion -- have GBP 11 billion of annuity (inaudible) liabilities. So we're in that business already. So it's not a sort of new business and new management that's required. Do you think we've got the management team? We have.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

That's very generous of my Chairman to say that. I echo his comments, having done 2 deals. But I think there's a more subtle point to Oliver's question as to whether we increase the frequency on the smaller deals. So you fly at 2 different altitudes. The gating item, Oliver, in doing deals are management, bandwidth, do we have the money. And how does our regulator feel about it. I am robustly confident particularly at the prospect to getting more talent in Scotland. We have the management talent to do these deals. Then when it comes to financing, Jim has a lot of money and the markets have been very supportive. He has an unspent RCF of GBP 950 million. Then I think you get into more interesting territory with our regulator. They are navigating Solvency II, there is a plethora of Part VIIs literally. And we have a lot of model changes and matching adjustments. And I think it is not unfair of our regulator to say there's a new focus on the things that really have to be done before you start dashing off elsewhere. And therefore, I'm going to use the word bifurcated approach where there are smaller deals where it is more administration and fee oriented rather than capital related. And there was a transaction last year which had a capital component. But it was a lot about administration and taking on a book and how to manage it. And so I'm interested in. It's not so much the scale an issue and frequency, which I think is a good way of looking at it. But it's whether it involves me having to create burdens for my regulator. And of course, burdens for ourselves. But as the Chairman said, we've already done more than 2 deals or 2 deals in '16 and we're absolutely -- we take a long time to gestate as businesses and we're always attentive to prospects in the market. Jim, do you want to talk about the...

A - James McConville {BIO 3743391 <GO>}

Yes. So your final question, Oliver, was about the treatment of the integration costs and the German and Irish Brexit related costs. So on Slide 19, the integration costs, which we expect the amount to GBP 135 million after-tax are included within the operating and pension cost line of GBP 0.5 billion shown on that chart. The costs of capitalizing the subsidiaries following Brexit for the German and Irish businesses are deducted from the cash generation line in the green box. So within the GBP 1 billion, that is after the capitalization of those businesses. So what it does is, it depresses the cash we expect to get over the first five years. And that is a number of several hundred million pounds.

Q - Angel Parasotam Kansagra {BIO 19712659 <GO>}

Angel Kansagra at HSBC. My first question is on the illiquid assets. So you said you have a target of increasing it from 15% to 30% to 40%. And you have a range of assets you would be investing in. But do you have preference for like specifically equity release mortgages because that's what you did in H2 2017? When you acquire the equity release mortgage back books, can you maybe share the risk profile of the back books in terms of what's the loan to value you get from the business? And third one is actually on longevity reinsurance simplification, that was one of the points you mentioned as management action. Can you give some more details on that? And a quick one actually, answer would be yes or no. But did the -- GBP 160 billion Standard Life assets, were they part of your GBP 300 billion market size estimate previously? Or was it something out of that?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Why don't you start with (technical difficulty), Andy?

A - Andy Moss {BIO 19123183 <GO>}

So yes, we do have a preference of equity release mortgages. So we have an ongoing flow of equity release mortgages through various funding arrangements which we have in place. And actually the margins which we're (going to earn but) swaps are quite attractive on equity release mortgages at the moment. In terms of back books. So I think we've acquired 2 or 3 over time. At the point in time of acquisition of back books, we do extensive due diligence. So the features of all of them vary significantly across the base. But particularly we are looking, as you said, loan to values, no negative equity guarantees, ship certificates. So this is where the equity release (council is basically issuing) certificates around it, particularly to make sure they have been legally drawn or properly that that families have been involved in all of those. So we do quite a lot of due diligence around the risk of that. And then obviously continue to monitor that as we take on the administration of those back books as well.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

So on the Standard Life and amounts of books available for sale. On the announcement on the 23rd of February, we updated estimates for the market size in the U.K. at GBP 380 billion. And that excludes the Standard Life books.

Q - Andrew Sinclair {BIO 17749036 <GO>}

It's Andrew Sinclair from BofA Merrill Lynch. Three for me as well. Firstly, given the step-up in the cash generation from the Standard Life deal and where your holdco cash goes over next few years, were you not (tempted) to increase the dividend a little bit further in the step up? Secondly, on the -- actually on the results today, believe it or not, another significant IFRS loss on the supported with-profits book, just any color that you can give us there? And thirdly, just thinking about bulks, how should we think about the cash generation step up from bulks? I know you've typically said that the dividend only really steps up when you do an acquisition. If you're doing a decent number of bulks, how should we think about that?

A - Henry Eric Staunton {BIO 1520566 <GO>}

How do we do it?

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Jim, on the dividend, Andy on with profits, IFRS. And I'll deal with bulks.

A - James McConville {BIO 3743391 <GO>}

Well as we explained on the 23rd, Andy, our dividend policy remains stable and sustainable and we review it at every period on a transaction. We've taken the decision to increase the dividend by 3% this time compared to the 5% that we declared at the time of the AXA deal and again at the time of the Abbey deal. And I think I used a phrase that going to appropriate amount is out and out science and we were very mindful of phasing of the cash flows. And in particular, the Brexit related cost that I've just spoken about in the previous question. So there was a longer-term back-ended nature to the cash flows from the Standard Life book compared to, say, the AXA book. And we came to review that looking at the dividend, the yield where it current sits, that 3% was the right answer.

A - Andy Moss {BIO 19123183 <GO>}

So on the IFRS loss what we'd generally see across all of our books of business is that people are retiring later and we have won a couple of particular products and are supported with profit funds, which have guarantees in terms of roll up. And what we're seeing is those people are staying in those products longer. And hence, I think Jim referenced the negative impact from overall persistency experience and that effectively is that particular one. We are seeing, on the positive side in our unit-linked book, the same trend. And that obviously gives us a benefit, which partly offsets the total persistency experience.

A - James McConville {BIO 3743391 <GO>}

And I think your final question was on the impact of both transactions. We have said that both transactions will be selective and proportionate. We've talked in the past about doing dues roughly equivalent to GBP 500 million of liabilities per annum. So the annual impact of the cash flows of that business will clearly build up over time as we do dues going into the future. But initially will not be significant.

A - Henry Eric Staunton {BIO 1520566 <GO>}

We still said selective and accretive. That's important -- and I think it won't be material. It's interesting because (we're already in) that business. But it won't be material.

A - James McConville {BIO 3743391 <GO>}

It will build up.

A - Henry Eric Staunton {BIO 1520566 <GO>}

It will build up. Our focus is going to be on closed funds. That's the key message. Dividends, it's an art, not a science is all I will say.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Shall we say thank you very much?

A - Henry Eric Staunton {BIO 1520566 <GO>}

Yes. That's it.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Okay.

A - Henry Eric Staunton {BIO 1520566 <GO>}

Thank you.

A - Clive Christopher Roger Bannister {BIO 2183003 <GO>}

Thank you very much indeed. It was a strong year financially for Phoenix Group and that gave us the confidence to increase our dividend based off strong cash flow and strong solvency. Thank you very much indeed.

A - Henry Eric Staunton {BIO 1520566 <GO>}

Thank you for coming.

A - James McConville {BIO 3743391 <GO>}

Thank you.

A - Andy Moss {BIO 19123183 <GO>}

Thank you.