Y 2018 Earnings Call

Company Participants

- Andy Moss, Phoenix Life CEO and Group Director, Heritage Business
- Clive C R Bannister, Group Chief Executive
- Jim McConville, Group Finance Director and Group Director, Scotland
- Nicholas Lyons, Chairman
- Susan McInnes, CEO SLAL and Group Director, Open Business
- Unidentified Speaker

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Dominic O'Mahony, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst

Presentation

Nicholas Lyons {BIO 16348625 <GO>}

Well, good morning, ladies and gentlemen, and welcome to Phoenix Group's 2018 Results Presentation. I'm joined on the podium today by Clive Bannister, our Group CEO; Jim McConville, our CFO and Group Director, Scotland; Andy Moss, CEO of Phoenix Life and the Group Director of our Heritage Business; and Susan McInnes, CEO of Standard Life Assurance Limited and the Group Director of our Open Business.

The acquisition of Standard Life Assurance Limited in 2018 was quite simply transformational for Phoenix. It allowed us to evolve from being a UK closed life consolidator into the largest life and pensions consolidator in Europe; with Heritage and Open businesses spanning the UK, Germany and Ireland.

2018 was a year marked by outstanding strategic delivery and strong financial performance, which has enabled the Board to recommend a final dividend of 23.4p per share, as planned, a 3.5% increase over the final 2017 dividend. Clive and his team will take you through Phoenix's 2018 results and the new targets we have set for the business moving forward.

From the 18th of March, Phoenix shares will be included in the FTSE 100, a measure of our growth story and our achievements to date. And we look forward to the future with great optimism. Clive?

Clive C R Bannister {BIO 2183003 <GO>}

Chairman, thank you, and good morning and welcome to everybody. Phoenix had a strong 2018. At our Capital Markets Day, we announced GBP664 million of cash generation in the year, exceeding the upper end of our 2017-2018 target range delivering a total of GBP1.3 billion. The Group has in parallel improved its capital resilience with Solvency II surplus of GBP3.2 billion. This is up by GBP700 million from a full-year 2017 pro forma, resulting in a shareholder capital coverage ratio of 167%.

Fitch confirmed the strong financial position of the Group, by their affirmation of our A plus rating. Our leverage ratio at the end of year was only 22%, its lowest ever. To improve our customer service, particularly digital engagement, we are moving 2 million policies to the Diligenta outsource platform. For us, this is more of the same, since Diligenta has been a preferred strategic partner for over a decade.

Turning to our strategic priorities. The transition of Standard Life Assurance is well on track. We were successful in the bulk purchase annuity or BPA market putting a GBP100 million of capital to work across three value accretive deals. The integrations of AXA Wealth and Abbey Life are now in our rear-view mirror, and we have released a GBP1 billion from these businesses, circa 75% of the original acquisition price paid and we've done that in just 24 months. This is Phoenix at its best.

Phoenix looks to the future with confidence and announces new increased targets for the Group. Our 2019 cash generation target is GBP600 million to GBP700 million. Our new long-term cash generation target for the five years 2019 to 2023 is GBP3.8 billion. Beyond 2024, we anticipate a further GBP8.2 billion of cash generation from the existing in-force book, demonstrating the Group's strong long-term cash flow profile.

The Group continues to have a stable and sustainable dividend policy. Acquisitions have allowed us to increase the dividend three-times in the last three years. Our 2019 dividend per share of 46.8 pence per share is circa 12% higher than our 2016 full-year dividend.

Already in 2019, we have injected GBP250 million of capital into our Irish subsidiary in preparation of Brexit. Absent this our cash generation for 2019 would have been circa GBP850 million to GBP950 million. As the chart on the right-hand side of this slide demonstrates, we are able to fund our dividend comfortably from just our organic cash generation.

Turning to our acquisition of Standard Life Assurance. Upon announcement in February 2018, we set a total cost and capital synergy target of GBP720 million. Since completion in

August, we have successfully worked with our new colleagues from Standard Life to design an operating model for our combined businesses. It is clear to me as Chief Executive, that Phoenix will be forever strengthened by the breadth of skills that our new colleagues bring. I am extremely grateful for the hard work across all of our Group entities that has ensured that our transition program has and will deliver the best of both.

In November, at our Capital Markets Day, Jim talked confidently about us being able to meet or exceed our original synergy targets. So today, I'm pleased to announce an increase of GBP500 million, or a 70% increase to a new total synergy target of GBP1.22 billion. Total capital synergies rise to GBP720 million, the largest single contributor with the total cost synergies of a further GBP650 million.

In 2018, we rapidly delivered GBP500 million of those capital synergies. Andy will talk more about that in a few minutes' time. We now target reducing our annual running cost from around GBP600 million to GBP525 million. This is an increase in our cost synergy target from GBP50 million to GBP75 million and reflects our growing certainty over the savings that we will deliver over the next of the three phases.

The GBP14 million delivered in 2018 has primarily been achieved by removing duplication in our structures across the UK and Europe and the combination of Group functions. The one-off cost synergy target of GBP30 million, relates to savings on projects that were in operation -- were in the operating plans of both entities at the time of due diligence, for example, IFRS 17, where the Groups will now have just one single project moving forward. To deliver these increased synergies, we will invest GBP150 million, an increase of GBP15 million compared with the original transition costs of GBP135 million. We still expect to deliver all of the material synergies within a three year basis.

Get used to this slide, it will become very familiar as we use it to track and announce our progress going forward. This brings me neatly to what we are calling affectionately or otherwise the wedge, it sounds like a sort of Hollywood movie, doesn't it? The wedge. We use this exhibit at our Capital Markets Day to set out the truly transformational nature of the Standard Life acquisition, by illustrating the potential shape and sources of our future cash generation.

We put forward the hypothesis, that the growth of our Open business may in time entirely offset the run-off of our Heritage business. Jim will talk you through the maths of the wedge so that you can understand, why we believe that this is possible in the future, but Phoenix is not yet there. We continue to set all our cash generation targets based on the policies we have in-force today, not anticipating business in the future. Only time will tell whether the rate of growth in our Open business is sufficient to offset the run-off of our Heritage business. However, even if the offset is not fully realized, our run-off will be significantly dampened. This will give Phoenix a more sustainable cash generation profile into the future.

I will now hand you over to Jim. Jim?

Jim McConville {BIO 3743391 <GO>}

Thank you. Thank you, Clive, and good morning, everyone. 2018 has been a successful year for Phoenix 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 financial highlights. Strong cash generation of GBP664 million, Group operating profit of GBP708 million, a leverage ratio of 22%, below our target range of 25% to 30%, PGH Group Solvency II surplus of GBP3.2 billion and a shareholder capital coverage ratio of 167%. A pro forma full year new business contribution from our UK Open and European business of GBP154 million, and this will be explained later. Assets under administration of GBP226 billion and a final dividend for 2018 of 23.4 pence per share.

We have a long track record of either meeting or exceeding our cash generation targets. By delivering GBP664 million of cash generation in 2018, we took our total cash generation over 2017 and 2018 to just over GBP1.3 billion, exceeding the upper end of the target range. In this period, management actions accounted for nearly 50% of cash generation, reflecting the higher level of actions delivered on the back of the AXA Wealth and Abbey Life acquisitions.

Going forward, we expect management actions to contribute approximately one-third of annual cash generation. Today, we have set new five-year cash generation target of GBP3.8 billion and guided to a total of GBP12 billion of cash generation over the life of the book. Last year, we also talked to total cash generation of GBP12 billion in 2018 and beyond, but having delivered GBP0.7 billion of cash during 2018, we would expect total cash generation in 2019 and beyond to reduce to GBP11.3 billion. The increase in our new guidance is driven by our revised cost synergy targets, together with the future cash generation from new business written in 2018 and the inclusion of 2013 management actions.

Our cash generation guidance of GBP12 billion continues to exclude the incremental premiums on in-force policies, new business arising on our UK and European Open business, management actions post 2023 and any inorganic growth from either BPA or M&A. We therefore hope to do much better.

This slide shows the sources and uses of cash for the combined Group over the next five years and reflects the new target for this period announced today. As you can see the uses of cash at the Group level remains small in number and include the cost of maintaining our head office functions, making pension scheme contributions to the Pearl and Abbey Life pension schemes, servicing the interest on our debt outstanding and paying a dividend of GBP338 million per annum. After these uses of cash, we are left with an illustrative GBP1.3 billion of cash at the holding companies as at 2023. Over the coming years, this accumulation of cash balances will be used to support new BPA deals and future acquisitions that meet our acquisition criteria.

To demonstrate the resilience of our five-year cash generation target, we have set out the sensitivity of this target to various stress events. As you will be aware, Phoenix has a low appetite to market risks and uses hedging to mitigate the majority of its exposure to equity, currency and interest rate risk. This translates into the low sensitivity to these risks we present today.

Phoenix's main exposure continues to be to longevity risk on its annuity business. Here we model the impact of every annuitant living six months longer and even in this unlikely scenario, the Group will be able to service its debt obligations and continue to pay a dividend of GBP338 million per annum. This resilience in our cash generation brings increased certainty to our dividend.

This slide follows on from the earlier one, showing the position for the combined Group beyond 2023. The nature of the Standard Life business means that the cash emergence from this business is more back-end loaded, significantly extending the profile of the Group's long-term cash generation, and therefore the sustainability of our dividends.

The solvency position of the Group has been significantly strengthened from the 2017 pro forma surplus of GBP2.5 billion to 31st December 2018, actual Group surplus of GBP3.2 billion. This increase in surplus translates to a 20% increase in the shareholder capital coverage ratio to 167% and demonstrates the increased resilience of the Group.

Integral to this increase in surplus are GBP0.5 billion of Standard Life Capital synergies, and GBP0.6 billion of management actions, delivered on our legacy Phoenix business. We have also seen the benefit in our solvency position of issuing more capital qualifying debt instruments in the period than was anticipated in our pro forma figures.

The strain of GBP0.2 billion from new business during the year, primarily relates to the cost of rating BPA and vesting annuities. New business written within the UK Open and Europe segments is capital-light. The Group recognized a circa GBP150 million benefit from changes to longevity assumptions, which included moving to the CMI 2017 mortality tables in Phoenix Life. This benefit was more than offset by the impact of strengthening expensious [ph] capital for the Standard Life business and the cost of customer proposition developments and other projects. And despite turbulent equity markets during 2018, we report a small economic variance of GBP0.2 billion. This is driven by the Group's hedging strategy for equity, currency and interest rate risk, which brings resilience to the Group's solvency position.

We have introduced a new metric, new business contribution to measure the value generated through new business written each year in the UK Open and European businesses. New business contribution is the increase in Solvency II Own Funds arising from new business written adjusted to exclude risk margin and to remove the contract boundary restrictions of Solvency II. It represents the discounted value of expected future cash flows from new business written and we can, therefore, use it to explain future cash generation.

In the full year 2018, acquisition costs of GBP126 million net of tax were incurred of new business. GBP280 million of cash generation will therefore emerge from this new business in the future. And we expect 75% of this future cash generation to rise over the first 15 years of the contract life. Therefore the 2018 new business contribution will emerge at an average of GBP14 million of cash generation per annum from 2019 to 2034.

As Clive mentioned earlier, we used an exhibit called the wedge at our Capital Markets Day, which put forward a hypothesis that the growth of our Open business will offset the run-off of our Heritage business and bring sustainability to our organic cash generation. I wanted to take some time today to share a simple model and assumptions that illustrate this hypothesis. It is important to note that the wedge model is a subset of organic cash generation and not assets under administration.

There is therefore no need to be distracted by discussion around the relative margins of Heritage versus Open business. As the hypothesis we are seeking to prove is that Open growth offset Heritage run-off, our model does not factor in cash generation from the in-force Open business, but simply assumes that this offsets the acquisition costs associated with writing new business. As cash generation from the in-force Open business exceeds acquisition costs, then this is a prudent assumption.

We have used 2018 actual results circa GBP400 million of organic cash generation from the Heritage business and GBP154 million of new business contribution from the Open and European businesses. The model builds up the growth in Open business cash generation from new business contribution, assuming that this will grow at 4% per annum through a combination of volume growth and margin management. It also assumes that the Heritage business cash generation runs-off at 5% per annum.

You can see that the cash emerging from successive years of growing Open business offsets the decline in Heritage business cash generation. Now this model is clearly very simple and serves to illustrate that hypothesis accordingly. Our actual five-year cash generation target assumes no future new business, and therefore, includes only the Heritage 2018 new business contribution figures from this model. Our targets also include cash generated from the in-force Open and European businesses, the distribution of free surplus and management actions. To summarize, we see real upside potential in Phoenix in future from delivering growth across its Open business.

Our target shareholder capital coverage ratio is 140% to 180% and the sensitivity set out show that Phoenix remain well within this range, under a range of scenarios. If the Group's shareholder capital coverage ratio will have to fall below this target range, we would consider appropriate rectification plans, after allowing for surplus emerging and didn't change management actions. And if the Group's shareholder capital coverage ratio will have to go above this target range, we would consider options for the deployment of capital, which could include a potential return of capital to investors.

We have delivered a strong set of IFRS results and reported an operating profit of GBP708 million. The increase compared to the prior year is primarily driven by the inclusion of the Standard Life Assurance business for the four-month period post completion together with net positive impacts of management actions and longevity assumption changes in 2018.

Investment return variances, including net positive economic variances on hedging positions held across the Group during the year, to protect the Group's Solvency II surplus position. This represented a reversal of the position reported at the half year 2018.

Other non-operating items included a gain on acquisition of GBP141 million, reflecting the excess of fair value of the net assets acquired of the Standard Life Assurance businesses over the consideration paid. Also included in this item, our one-off costs from introducing pension caps, our non-workplace pensions and the acquisition costs.

I will now pass you to Andy.

Andy Moss {BIO 19123183 <GO>}

Thank you, Jim and good morning everyone. Phoenix are specialists in the safe and efficient management of Heritage business with a strong track record of delivery. Our UK Heritage business comprises products that are no longer actively marketed to customers and adds a GBP118 billion of assets under administration. Our strategy for our Heritage business is simple, to deliver value to shareholders and customers and to improve customer outcomes.

Integral to this, is ensuring that our cost base reduces more quickly than our policy count runs-off. The Heritage segment results presented here are prepared on a pro forma basis, as if Standard Life Assurance businesses have been included for the full year with the exception of operating profit, which includes only the post-acquisition results. Gross outflows of GBP10.8 billion have been partially offset by inflows of GBP3.7 billion, which included GBP700 million of vesting annuities and GBP800 million of BPA.

On a purely flows basis, this indicates our Heritage assets under administration were running off at circa 5% in 2018. Delivery of management actions continues to be a key focus, and moving forwards we'll work to deliver these across both our Heritage and our Open books, i.e., our total in-force book. We have been clear in our approach to the BPA market. Our target for growth in this area is proportionate at around GBP500 million to GBP1 billion of liabilities per annum. In 2018, we completed three transactions with total contracted liabilities of GBP800 million. This represents circa 4% of the BPA market, demonstrating that we are not chasing volumes and will be selective progressing only value accretive deals.

We have invested around GBP100 million of capital to facilitate these transactions. This represents the day one capital strain arising from the assets received and allowing for capital management policy. This investment increases our long-term cash generation by around GBP300 million.

The BPA market is growing 20 billion of BPA was completed in 2018 and we expect volumes in 2019 to be similar. Phoenix is well-positioned to benefit from this market growth and generate long-term cash flows to support the dividend into the future. Long-term illiquid assets return a higher yield for shareholders and better match the duration of long-dated annuity liabilities. We therefore have an active program of sourcing illiquid assets, including equity release mortgages, commercial real estate and private placements.

At the 31st of December, 2018, 20% of our GBP17 billion of shareholder assets backing annuities within our non-profit funds were invested in illiquid assets. We continue to target an upper limit of 40% allocation to these asset classes by originating up to GBP1 billion of illiquid assets per annum. 2018 was a successful year for Phoenix with GBP1.4 billion of illiquid assets sourced. This volume delivered circa GBP130 million of solvency benefit to the Group.

Our ability to compete in the BPA market is heavily influenced by our illiquid asset sourcing capabilities. We continue to see this as a key management action, which will also contribute to the Standard Life Assurance transition capital synergy target. Management actions broadly fall into two categories under Solvency II. Those that increase Solvency II Own Funds, and therefore, increase the total quantum of cash flows emerging from the business, and those that reduce capital requirements, and hence allow an acceleration of cash that would otherwise have been expected to emerge over time.

In total, management actions added GBP570 million to our Solvency II surplus in 2018. A number of our management actions related to the Abbey Life business acquired in 2016. Approval for this business to be included within our internal model was followed in the year by notification from the SCA that they had concluded the enforcement action against Abbey, and in December, we completed the Part VII transfer into Phoenix Life Limited.

Other actions include the benefit from investment fee reductions and savings arising from our joint investment with outsources in the digitalization of the customer journey. In 2018, we delivered GBP500 million of capital synergies in respect to the Standard Life Assurance businesses. This principally consisted of the capital synergies from implementing the Group's equity and currency hedging strategy, but also included benefits from transfer and indemnities within the Group.

Today, we have increased our capital synergy target to GBP720 million. This new target reflects the estimated benefit of moving towards Phoenix strategic asset allocation for annuity backing assets and creating a single life company. It is worth noting that we continue to make no estimate of the capital impact of harmonizing the Group's two internal models, which we expect to be capital neutral overall. Although, this clearly remains subject to PRA approval.

Across Phoenix, we continue to drive forward actions, which seek to improve customer outcomes. We remain focused on improving outcomes With Profit customers by removing uncertainty and risks from the With Profit funds and continually reviewing fees. We are investing in our online capabilities to connect digitally with as many customers possible. 80% of Diligenta pension customers can now log onto our digital platform and self-serve, and during 2018 we saw over 40% of eligible customers taking advantage of our online encashment functionality.

In the first half of 2018, we announced the introduction of fee caps on our Phoenix Life non-workplace pensions products. The change will benefit circa 250,000 policies and reduce the average Phoenix Life ongoing charge for non-unitised workplace pension policies to 1.1%.

As we can see from the previous slide, not only do our management actions focus on delivering value to shareholders, they also look to deliver value to customers and improve customer outcomes. At Phoenix Life we recognize the importance of a sustainable outsourcing model for customer administration that delivers a digitally enhanced offering to customers and can adapt to change in a fast and cost-efficient manner.

At our Capital Markets Day in November, we announced that we have selected Diligenta to partner Phoenix for this journey and as a result will be transferring circa 2 million legacy Phoenix policies to Diligenta by the end of 2021. It will lead to a reduction in per policy administration cost across the legacy Phoenix book and the GBP100 million Solvency benefit of this management action was recognized in the first half of 2018. Following this transfer, Diligenta will administer circa 5.5 million Phoenix policies from a single administration platform. This will deliver an end to end digital journey to 75% of our Phoenix Life customers.

I will now pass you to Susan.

Susan McInnes {BIO 19698729 <GO>}

Thank you, Andy, and good morning. Our capital-light UK Open business is important to Phoenix, as it brings additional scale to our operations, and dampens the run-off of our Heritage books, therefore extending our dividend paying capabilities. We define Open to be products that actively marketed to new and existing customers and we have GBP85 billion of assets under administration in this segment. It's important to note that these are primary unitized products, which have no guarantees and where the investment risk sits with the customer.

Our UK Open business, therefore, comprises only capital-light products. In the main, our Open business relates to those products being sold as part of our strategic partnership with Standard Life Aberdeen under the Standard Life brand. Well, this is part of the Phoenix Group, you will hear me to fetch [ph] the business using its brand name today. UK Open also includes products aimed at the over-50's market distributed by SunLife. In terms of strategy, there is very much a shared vision with our Heritage book and that we aim to deliver value to shareholders and customers alike.

Our strategic partnership, which leverages the skills of both organizations is important in supporting that strategy. The UK Open segment results presented here are prepared on a pro forma basis, as if the Standard Life Assurance businesses had been included for the full year with the exception of operating profit, which includes only the post-acquisition results. We will not be disclosing the margin we charge on our Open business, but do provide disclosure of the operating margin achieved in the appendices to this presentation.

Gross inflows of GBP10.7 billion, include GBP7.4 billion of inflows on new business. By new business, we mean either new or increased premiums on existing policies or new policies entered into during the year. This new business made a contribution of GBP137 million in the year, and as Jim explained earlier, we view this new business contribution as a proxy to future cash generation.

Net inflows during the year were GBP3.7 billion and illustrate that on a purely flows basis, our UK Open business assets and administration were growing at around 4% in 2018. The Standard Life proposition is strong and has competed well in the workplace auto enrollment market with 15,000 active schemes serving around 1.9 million customers. New business gross inflows of GBP1.6 billion during the year were driven by auto enrollment increases, new schemes and new customers joining existing schemes.

Net inflows in 2018 of GBP1.8 billion reflects the strong performance for this product, which continues to be the engine for customer acquisition to the UK Open business. When customers change employer, we work hard to retain the business and in 2018, we saw GBP2.2 billion of assets under administration associated with workplace leaders retained by the Standard Life brand and transferred either to a retail pension's business within the Open segment or to the Heritage business.

Looking forward, we expect the majority of new flows to come from existing schemes. In 2018, over 280,000 new policies were generated by joiners to existing employer schemes and the increase in auto enrollment minimum contribution levels from 5% to 8% in 2019, will further support our growth.

Critical to success in the workplace market is scheme retention. We will continue to invest in the overall proposition to ensure that remains competitive and differentiated. We expect to win new mandates, and believe the ongoing market shift towards Master Trust arrangements, makes us well placed to win new opportunities.

The retail pensions book is in part built up by the strategic partnership with Standard Life Aberdeen with the selling retail pension products via independent advisors. During 2018, we saw gross inflows of circa GBP2 billion, despite the industry-wide slowdown in DB to DC transfers, after the high levels experienced in 2017.

We also saw a steady flow of customers moving from workplace schemes to retail pensions, when they change employer. Our aim is for customers to consolidate their other pension products with us and stay with our products, as they enter the decumulation phase of their life. This means, we are retaining assets under administration within the Group for the long-term. The products themselves have a strong digital and service offering, which is critically important in this marketplace. We expect strong gross inflows in 2019, as our product range makes us well-placed to offer solutions for both accumulation and decumulation.

Wrap has historically been one of the largest growth areas for Standard Life branded products, and 2017 saw historic levels of DB to DC transfers. In 2018, Wraps had delivered GBP4 billion of gross inflows on new business during the year. Clearly, this is a very competitive market, but the Standard Life Aberdeen platform remains number one in the market based on both advised, gross and net volumes, and it's well placed to grow in the future.

Our European business contains both Open and Heritage products, split across Germany and Ireland and we have GBP23 billion of assets under administration in this segment. The 2018 results illustrate a self-sustaining nature of this business, which provides us with optionality to grow inorganically through both Open and Closed European life consolidation in the future.

Our Brexit preparations are complete. The Group has already injected GBP250 million of capital into the Standard Life International in readiness for a Part VII transfer of the German and Irish, UK branch businesses. The court hearing for this transfer is scheduled for the 19th of March. We are therefore, ready for any Brexit scenario.

Across Phoenix, we continue to invest in our digital proposition to increase the number of customers, who can access the data and transact online. With more than 3 million logins last year, our mobile app is now the easiest way for customers to interact with us, when they want. In 2018, we had over 6,000 customers moved into drawdown through our digital platform.

We do about 8,000 customers, who use their telephony guidance service to support them with the retirement options and 2,000 customers and guests attended our highly-rated retirement roadshows, which run nationwide. We also monitor our customer service metrics very closely to enable us to drive forward improvements and use a variety of tools to track customer satisfaction. The increase in the scores year-on-year is evidence that our levels of customer service continue to improve.

I will now pass you back to Clive.

Clive C R Bannister {BIO 2183003 <GO>}

Thank you, Susan. I'm going to wrap up. The Chairman described and opened this presentation by saying that 2018 was a year marked by outstanding strategic delivery and strong financial performance. With this, I entirely agree. And therefore it is with optimism that I now turn to Phoenix's future. Phoenix is at an inflection point, as we test, whether we can entirely offset the natural run-off of our Heritage business with the growth of our Open business, as described by Susan.

We believe we are likely to be able to do this for three reasons. First, we must retain our existing clients and assets. We will do this by enriching our product offering and by improving the outcomes and experiences of our clients. Second, we will attract new customers, bringing new assets. This will be achieved through our strategic partnership with Standard Life Aberdeen. And finally, we intend to improve our operating profitability. We must have a lean and agile operating model that uses our scale to leverage its buying power with our partners. The prospect of our Open business growth offsetting the run-off of our Heritage business represents a fundamental change for Phoenix, as I said in my introduction. Proof of this hypothesis will deliver longer term sustainability to our cash flow, but the future does not stop there.

Standard Life was an important milestone on our consolidation journey, but it is not the final destination. Acquisitions including BPA will enable Phoenix to grow cash generation further. We believe that the drivers of consolidation remain compelling. We believe that firms will divest themselves of their capital heavy businesses to consolidators such as Phoenix.

The market is clearly in flux and we see a range of future opportunities. And the Phoenix team is eager to get the next transaction across the line. I don't believe funding is an issue, what I've referred to before much to Jim's regret, is Jim's war chest is circa GBP1 billion, and I have confidence that we have the management bandwidth augmented by our Scottish colleagues to do another deal if necessary immediately.

Phoenix has a clear set of priorities for 2019, cash generation is our key metric, we are focused on delivering the GBP600 million to GBP700 million target for 2019 announced today. Our transition program is challenging. We have set ourselves clear management objectives and will deliver against these because that is what Phoenix does. Across the Group, we will drive forward customer initiatives that support new business growth. And finally, as I said a moment ago, we are open for business and will examine further M&A and BPA opportunities that meet our stated criteria of being value accretive.

To conclude, cash remains king at Phoenix and we estimate at least GBP12 billion of future cash generation from our business in-force today. The resilience of Phoenix is evident with our GBP3.2 billion Solvency II surplus and a shareholder ratio of 167%. The continued growth of our Open business will offset the Heritage business run-off, and there will be growth in BPA and M&A as the UK, and European insurance industry consolidates. We are clearly building a more sustainable Phoenix.

Thank you very much indeed. Ladies and gentlemen, that brings to an end the formal presentation. Thank you very much for your engagement. I'd like to now move onto Q&A, which will be chaired by our Chairman.

Questions And Answers

A - Nicholas Lyons {BIO 16348625 <GO>}

If you could wait for the microphone to come to you, and then announce your name and the institution for whom you work, that will be great. I'm also conscious that some of you will be moving on to another results announcement after this. So, if you could be a little bit restraint and limit yourself to just two questions. I know how you like to get a barrage in.

A - Unidentified Speaker

Can we start. Over here.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you, and good morning. Jon Hocking from Morgan Stanley. I have two questions please. The firstly, on the new business strain, can you talk a little bit about how you're going to balance new business strain, given the cash target you set out. I think Jim alluded to the fact that you see that large has been covered off by the existing new business from the back book. But if you have opportunities, for example to write a greater volume of bulk annuity, for example, would you choose to sort of trade-off between long-term cash flow and short-term cash flow is the first question.

And then second question, just in terms of the longevity risk, the sensitivities given, I wonder if you could elaborate a little bit in terms of what your risk appetite is for longevity, and going forward whether you see a role for more reassurance on that point? Thank you.

A - Jim McConville {BIO 3743391 <GO>}

Okay. I think they're both for me. Well, first of all turning to Slide 20, which is up on the screen here, you will see the new business strain on the slide, which is a negative GBP0.2 billion. So, just a reminder, what we said that comprises a GBP101 million from the BPA business that we wrote during the year, which includes the capital management policy amounts related to that business. A roughly GBP60 billion relating to vesting annuity businesses and GBP40 million balance relates to the Standard Life business, which we've described previously as capital-light.

I think in the Capital Markets Day, we had said, we believe that strain to be slightly positive, but once we've run the year-end numbers, it turned out to be marginally negative, but fundamentally is capital-light business. In terms of thinking forward, in terms of our use of capital, you will have seen from one of the other slides, that our cash builds up over the five-year period from GBP0.3 billion to GBP1.3 billion. So, we will be accumulating additional amounts of surplus through, which we will continue to invest that in BPA business and in the Standard Life business and in supporting future M&A.

Now the key thing about -- thinking about the bulk annuities business, is we have used the phrase in the past that we will enter that market on a selective and proportionate basis and that remains the position. We are always going to fund this BPA business from our own resources. And we have given guidance that we will expect between GBP500 million and GBP1 billion of liabilities over the course of the year. So, the strain from that BPA business will be around GBP100 million mark on avergae. And we continue to see the -- obviously the Standard Life business will have a very minimal capital strain. So, we're very comfortable with that those new business opportunities that the capital costs are well manageable within the ongoing business, as we go forward.

Your second question was around longevity risk and our risk appetite. So, roughly about 55% of longevity risk is reinsured as of the present time. While we are thinking about BPA deals, we are reinsuring a larger proportion of that business, so up to 90% or so on average for the new business to do with BPAs. And we continue to keep the overall longevity risk appetite under review, and if it was necessary, we would take action to keep it well within our risk appetite. We don't have any particular issues with our risk appetite at present and are very comfortable with the overall position.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, thanks. It's Gordon Aitken from RBC. Couple of questions, please. You mentioned that the balance sheet is more sensitive to longevity, just wondering what your thoughts are for the 2018 mortality table, which should be published soon?

And secondly, also thoughts on super funds, which some are pitching as a threat to bulk annuity writers like yourself?

A - Nicholas Lyons {BIO 16348625 <GO>}

Shall I pick up...

A - Clive C R Bannister {BIO 2183003 <GO>}

So, I will pick up the first one and then Andy or Susan can pickup super funds question. So, where we have moved to today, for the Phoenix Life book, we have reflected the CMI 2017 tables and therefore, we're up to date with these and we will review the position in relation to the 2018 tables in the second half of this year in accordance with our normal practice. We certainly saw positive experience variances come through in 2017, relative to the assumptions at that time and the fact trend, we have to continue, it's possible we could see further changes. But I think at this stage it's too early to say.

Standard Life have a slightly different basis where they use their own bespoke model to calculate their longevity that when we put them side by side, in very broad terms, they are reflective of the 2017 tables as well. So, both businesses in broad terms are consistent with the 2017 tables and we will -- time will tell, whether the 2018 brings a further opportunity for a release.

A - Andy Moss {BIO 19123183 <GO>}

So, I think on super funds, and I think you're right there, and there is a potential new competitor there in the BPA market. And it's still relatively early days and there is -- I think there's quite a lot of water still to pass under that bridge in terms of really looking at the capital treatment. And there's a lot of work going on across the ABI to ensure that we have got comparable capital treatment around super funds.

But I would say as a competitor, I think there are benefits from the capital strength of our life insurance companies to give to those pensioners. So, I think there are benefits, which we have over them, but I think it is a competitive landscape, which we'll absolutely have to keep under review.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, thank you.

A - Nicholas Lyons {BIO 16348625 <GO>}

Greig?

Q - Greig Paterson

Greig Paterson, KBW. One technical question. In terms of your credit risk on Slide 17, in terms of the element for default, you previously you've said, there was a 10% allowance for default and there's no comment there now. Wondering what the allowance for default is under the new sensitivity?

And the second point, question is to Clive. At the Capital Markets Day, if I remember correctly, you said you speak often to all the potential acquisitions, and you think possibly a deal will happen earlier than later versus what people expect. I wonder if the probability of a deal since the Capital Market Day from your conversations has improved, or deteriorated?

A - Clive C R Bannister {BIO 2183003 <GO>}

Okay. So, I'll give first of all with the credit spread widening on Slide 17 and, so the credit stress here is equivalent to an average 120 bps spread across the ratings. But clearly we apply a different percentage depending on the rating it comes an average of 120% and we allow 10% of that for defaults, which is consistent with the approach we've taken in previous years.

A - Jim McConville {BIO 3743391 <GO>}

Greig, it's a good question. I'm going to dodge it a little bit, so forgive me right now. There are three big tides, which are moving forward, which we've referred to before. I think I changed the order of those tides. The first was A-day giving people pensions freedom in '14 and '15, changed the way clients bought, and therefore that changed the maths of big back books.

The second was clearly the re-pricing of capital due to Solvency II in 2016. They are in the rear-view mirror. The third tide, which is happening and it is clearer today than ever before is the pricing that investors are attaching to different businesses. So, you do that, that's not us, that's your industry, but your industry attaches a PE to wealth management of circa 20, to our industry of around 7 to 8 that is becoming very clear. Therefore, where people put their capital is becoming highlighted in the spotlight, if you're managing businesses that combine those two (technical difficulty).

So, your industry is driving change, and I think that has become a greater force of emphasis the night of the A-day changes or pension freedoms and indeed the re-pricing of capital and Solvency II. So, that is a systemic change and I say that is being growing since the Investor Day, the clarity of that.

And the third is clearly we have a European capability in Ireland, in Germany, which means the breadth of the opportunities geographically is more and more and clearly I'm not learning foreign languages yet, but I'm certainly seeing opportunities, which are continental.

And then finally, because we are a biped in terms of our Open capabilities and the Heritage business that gives us a broader breadth as well. So, there's a depth to the conversation, and as I've said before it just irritates you, it's a bit like London buses, I never predict when anything may or may not occur.

A - Nicholas Lyons {BIO 16348625 <GO>}

Yes.

Q - Dominic O'Mahony

Thank you. Dom O'Mahony, Exane BNP Paribas. Two questions. You mentioned auto-enrollment as a force driving flows. On my crude understanding of solvency, when an individual increases the portion of their income going into the pension, that create a one-off increase in capital generation. But actually, because you bake in the assumption of the lifetime that then falls away.

When you think about the growth of the capital generation and cash release from the new business, does that mean that there is any chance that there's been a spike in this year, maybe a spike in -- a spike in '18, maybe a spike in '19. But that then falls away or you're very comfortable with something like the 4% that you've showed us in the helpful model.

The second is just on the operating model. We talk about the integration of Phoenix Heritage and Standard Life Aberdeen business, you didn't mention outsourcing in anyway in the past. You didn't mention the outsourcing, in the past you've always described the partnerships with Diligenta and Capita as being a real source of advantage. Is there a shift in the operating model here that actually you are looking to sustainably manage more of the business internally? Thank you.

A - Nicholas Lyons {BIO 16348625 <GO>}

Susan, do you want to deal with that first question?

A - Susan McInnes {BIO 19698729 <GO>}

Yeah. So, you're absolutely right, we expect that flows to increase in 2019, as we see the 5 to 8, just as we saw the 3 to 5 last year. And we think that accounts little bit another GBP200 million of income and our expectation is that, that will continue. We have made an assumption that we will see a slight increase in drop-off with the change from 5 to 8 and over that 3 to 5, but we do expect that to persist.

A - Nicholas Lyons {BIO 16348625 <GO>}

Clive, do you want to...

A - Clive C R Bannister {BIO 2183003 <GO>}

I could answer the second question. I don't think there's any change so, we've announced GBP1.22 billion of synergies, two halves. We always thought the biggest synergies would be generated by capital synergies at GBP720 million. That's what you expect. It's unique to our industry. This is not a manufacturing business. So, it's not just about costs, it's about capital synergies. That's what a consolidator brings to bear and the internal model et cetera. But of those cost synergies, which add upto GBP650 million, we've introduced a new category GBP30 million of single one-offs. This is one of the advantages if again if you bring two large businesses together, I mentioned IFRS 17, this is an expensive process for two companies and we bring it together, and we have a single process.

So, there is separate category of one-off. We are then left with GBP620 million odd coming from improved costs management. That is bringing our cost base down from GBP600 million to GBP525 million, that is a GBP75 million target, up from GBP50 million. This is easily doable, I say easily over a three-year basis, it's about 12.5% and you do it in multiple ways. You do it by changing processes, looking at a different target operating model, looking at the people, who do it by way of natural attrition, et cetera. And we have always believed in a bifurcated, some of the things, we manufacture in-house and some of the things we outsource to a variety of outsources of whom Diligenta is our preferred strategic provider.

And we think that, that is not going to change anytime soon. So, we will carry on having this bifurcated in-source and outsource capability, but as we have demonstrated not just last year, but in the years before and Andy was very fluent, Diligenta, the relationship we have with them, yields very good value to us as shareholders. But more importantly delivered better outcomes in terms of customer service by way of digital journey going forward.

A - Nicholas Lyons {BIO 16348625 <GO>}

Thank you, Clive. Andrew, you had your hand up earlier?

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean with Autonomous. One question, one ask, if I may. On Europe, you've only got GBP23 billion of assets split between three different businesses. There is no thought of private equity shocks out there trying to get into that business as well. What is your timeline do you think to be likely to be doing deals?

And have you considered actually selling back to the private equity and just folding your tent there. And then the request in terms of the movement in the Solvency Capital position, there's quite a drop in the SCR. And I was wondering, whether you could give us the movement in your, for surplus, separated between the available funds and the SCR in the same way that you have to report that to the PRA.

A - Nicholas Lyons {BIO 16348625 <GO>}

Clive, do you want to take the European question?

A - Clive C R Bannister {BIO 2183003 <GO>}

Yes, certainly. So Europe, there is no consideration of divestment. These businesses are accretive. So, we have a German business, which is not risk-bearing. It is a unit-linked business and has a Heritage book. There is an offshore, that's about GBP13 billion of that GBP23 billion. There's about GBP6 billion in offshore and then the remaining GBP6 million is unit-linked related to Ireland, again with the Heritage business. We think that they offer platforms for growth and offer real opportunity.

We absolutely recognize, Andrew, what you've commented on. Germany, as Mark Twain would say, as slow as molasses in winter, the Generali deal, which you maybe alluding to has taken a long time to get off the block. So, I think what we're witnessing, Ireland has seen more consolidation, so is the Netherlands. Really it's just starting in Germany and we wish to be a player. And of course, it does come down to value. There is a point, when an asset is more valuable to somebody else than it is to us or from whatever we can do with it far too early to reach that conclusion. And therefore, I say categorically these are not businesses available for divestment.

A - Nicholas Lyons {BIO 16348625 <GO>}

Jim, do you want to pick up the capital?

A - Jim McConville {BIO 3743391 <GO>}

Yes, I mean, some of the SFCR, Andrew we will give you a break down of the movement in the Solvency Capital requirement. But it's a reflection largely of a lot of the management action activity that has taken place during the course of the year.

A - Nicholas Lyons {BIO 16348625 <GO>}

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche. Thank you for the wedge modeling page, very useful. Just sort of trying to consider, what's in it, and what's not in it. And I'm afraid my questions are going to have a slightly negative slant. But I do recognize that you've got -- that you're missing out the bulk annuities and all the rest of it in there. So, one thing that's missing is the run-off of the open book. So, you are showing the gross cash flow coming off the new business, but you're not showing the loss of cash flow of the old business that's running off. So, I wonder how it would look if you included the open book in there as well?

The second thing -- the second question is, that the second thing it excludes is management actions. And so, you've given guidance, I think, the management actions will be a third of the total cash flow over the next five years out to 2023. But given the size of your business now and the linkage of those management actions to acquisitions, how confident do you feel about sustaining a third of cash flow from management actions beyond 2023?

A - Jim McConville {BIO 3743391 <GO>}

Yeah, I think these are for me. So, I was wondering, why don't we get right into the wedge, Oliver, so thank you very much. So, I'd like to be very clear. So, this is Slide 22, what this exclude. So, the number is shown here for the new business contribution, of the new business contribution associated with Standard Life deal, and exclude therefore BPA, exclude any future M&A and exclude management actions. So, absolutely excluded.

What I also said in my talk was that, we've assumed for the purposes of this model that the in-force run-off from the Open business would more than cover the acquisition costs that is not show in these numbers here. But there is an upside from that, that you would do if you model the entire thing. But what we are simply trying to demonstrate in this very simple model is that the run-off from the Heritage book is offset largely by the growth in the new business contribution, if you believe those assumptions that I've set out here. And I think that chart demonstrates that. So, if I give you the whole answer, I just be making your life far too easy.

A - Unidentified Speaker

Cash flows.

A - Jim McConville {BIO 3743391 <GO>}

Oh, sorry yes, on the confidence in terms of the management actions, and so, we've described in the past the Open approach, we used to management actions and that we continually review that and it's a very dynamic process, that remains. We are now incorporating the Standard Life business into that same process and as we stand today, we see a very healthy pipeline of management actions. And if you recall, we went as the old Phoenix for many, many years without a deal, but we're still able to deliver a very substantial proportion of management actions over that period, and we certainly see today the same confidence going forward into the future of being able to deliver a constant stream of management actions.

A - Nicholas Lyons {BIO 16348625 <GO>}

And may I just -- sorry, Mr. Chair, may I just say to help Oliver. I look at the GBP3.8 billion. So, in the last eight years, we've never said a number, which we haven't met or exceeded. You start if you build the sandwich of the GBP3.8 billion, you start with GBP800 million of Free Life Surplus, which emerges GBP1.8 billion of cash, which will come out of Heritage and then it's GBP1.2 billion. I think you said GBP1.8 of management actions. So, do we believe over the next five years, we can do GBP1.2 billion of management actions of either acceleration or adding the Solvency II Own Funds? Absolutely.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. It's Steven Haywood, from HSBC. Following up on the wedge, have you take into consideration any market return assumptions in this? And secondly, your GBP250 million Brexit capital injection, can it be released, if a soft Brexit occurs? Thank you.

A - Nicholas Lyons {BIO 16348625 <GO>}

Jim, do you want to take...

A - Jim McConville {BIO 3743391 <GO>}

That's me again. So, the Brexit, the capital injection has gone into the Irish subsidiary. If Brexit were not to happen, and therefore, we didn't need to go forward with the Part VII and so on, we would have the ability to take that capital back out of the Irish subsidiary, where we involve a capital reduction process. We've done lots of those types processes.

So they are familiar to us, but it would require that process. And in terms of the returns they're based on the risk free rate.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BoA Merrill Lynch. And can I say, I wish more companies I cover could report negative goodwill on their acquisitions. So, two for me. Firstly, just wondered if you could remind me a bit more about your equity hedging strategies, what instruments do you use? What were the impact be on equity market increases on your cash generation forecasts guidance, sorry?

And secondly, just on the Free Surplus in the Life company that increased pretty nicely upto -- upto GBP1 billion, I think increased by GBP0.2 billion pro forma in the year. Just wondered on ability to upstream that, does that give you any potential upside risk to the war chest? Thanks.

A - Clive C R Bannister {BIO 2183003 <GO>}

Okay. Well, thank you for your comments about the negative goodwill. On the equity hedging, we have commented in the past that our approach to equity hedging, in that we don't fundamentally see that as a risk that is rewarded to us. So, we have historically hedged a very significant proportion of the annual management charges that come out of the book and that continues to be the case. At Phoenix the level was about 90% of the risk was hedged. Within Standard Life, we have got about 75% of that risk hedged, as we stand today.

We have used a combination of options in futures, which tend to roll forward on a two-year basis. And we have recognized in setting targets going forward in to the future and then our plans that we would have a certain amount of costs related to the options.

And in terms of the Free Surplus, I mean that is, if you were to run, that Free Surplus is available for distribution today, so technically you could run that down to a GBP1, if we chose to do so. Clearly, I don't think we would ever like to run as close to the wire as Andy to my left here would get slightly nervous, but there is no restriction technically on that distribution.

Q - Ming Zhu {BIO 17001429 <GO>}

Ming Zhu from Panmure Gordon. Two questions please. First is from Slide 8, you gave that GBP850 million to GBP950 million cash generation for 2019. Is that a sort of standard annual number, because five-times that figure by 5 and the deduct of the GBP250 million Brexit cost, I will be looking at the minimum GBP4 billion to GBP4.5 billion cash generation for the next five years. And how does that tie back to the GBP3.8 billion, you've indicated, or have you being conservative as usual?

And my second question is on dividend, and you only increased dividend when you done deals and that returning. Well, would you review your, I mean, if you talk about gross and how resilient your cash is, your confidence in management action? Well, would you review your dividend policy to a progressive dividend policy, because you are now in FTSE 100, realistically, would people really buy into your shares, if you got no dividend growth outlook? Or, are you only going to increase dividend when you do an M&A?

A - Nicholas Lyons {BIO 16348625 <GO>}

So, Slide 5, sorry Slide 8, what you see there GBP850 million to GBP950 million that assumes that we hadn't put any money into Standard Life International and clearly that GBP250 million is a one-off, if you then strip that out, you get down to the range, we're talking about for 2019, which is obviously after the Standard Life deal.

The average over the five years, I think is about GBP775 million because of the timing of management actions it can be lumpy, it doesn't come necessarily at even streams. So, I think all you're seeing is in 2019, we are predicting more management actions than we are in the later years. That is usually quite normal because you have more sight obviously of the nearer-term actions as you go forward. But overall it's an average of that GBP775 million. I don't think it's for me to comment on the dividend, I think one of these two gentlemen...

A - Clive C R Bannister {BIO 2183003 <GO>}

I think it's about my pay grade. I think it's for Chairman, and it's the Board, our dividend policy remains absolutely stable and sustainable. It says what it does on the 10. We have raised our dividend three-times in the last three years. So, plus 12% since 2016. We have on each occasion raised the dividend, when we have done a transaction.

Your question said, would we only raise the dividend, when we do a transaction? I don't think it is exclusively that. Jim has already described on another slide, when we got, it will be to get north of 180% SCR, then we might consider a distribution. As I think he also said very clearly, we believe that there are ways we can deploy the capital very effectively on behalf of our shareholders, and that's where we stand at the moment.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning Ashik Musaddi from JPMorgan. Just a couple of question, one is clarification and one is a question on M&A. If I think about your war chest, you're flagging about GBP1 billion at the moment, but is it fair to say that this GBP1 billion would be say a couple of billion in five years time, because you are accumulating cash from GBP0.3 billion to GBP1.3 billion over next five year. So, GBP1 billion is the number today. And every year it goes up because you are accumulating cash, in case there is no deal in between. So, that's my first clarification I'm looking for.

The second one is, Clive, you remember that you always had a clear M&A criteria that dividend has to go up, leverage has to come down, cash flows has to go up. Any thoughts on that? I mean, are there any strict criterias, rules at the moment because one thing is that, if you do a deal now, probably it will be a bit more levered deal compared to what you put in from the business. So, any thoughts on that, those criterias would be great. Thank you.

A - Nicholas Lyons {BIO 16348625 <GO>}

Okay. So, I'll be picking up the war chest question first. So, Jim's war chest, I don't think is quite mine to spend.

A - Jim McConville {BIO 3743391 <GO>}

Not few person.

A - Nicholas Lyons {BIO 16348625 <GO>}

I'll have a word with the remuneration committee shortly. So, the war chest is quite simply recognizing the fact that at the present time, we have leverage at 22% on a Fitch basis. And as you know, we have a target range of 25% to 30%. So, if we took that leverage up to 30%, we would have funds available of around about GBP1 billion, without going back to equity shareholders for funding for a deal.

We do see accumulating cash over that five-year period, as you say from GBP0.3 billion to GBP1.3 billion, that will be reflected in improving surplus. But out of that, we will be paying the capital for future BPA deals, which we've guided you to -- up to about GBP100 million per annum, plus the smallest strain on the Standard Life new business. So, in all of that would translate itself necessarily into an addition of the war chest that would be a reasonable proportion of it.

A - Clive C R Bannister {BIO 2183003 <GO>}

So, Ashik, you asked the question, whether we would change the criteria by which we would look at future acquisitions. And I think the answer is no. Why because it served us well in the past. There are three criteria. The first is all deals cash accretive. Can we show that day one, you can do that in two ways. We showed that was in the SLAL deal, it brought GBP5.5 billion of cash. We could raise the dividend and we paid as on UTI [ph] basis 84%. So that was accretive.

The second one is does it support the dividend, so that we understand that if we raise equity, we have to repay those, who give us their money. We are stewards of their money and we deploy that. And that's what we did by the dividend increases. And then finally, it's to protect our investment grade rating. So, we trade in on a Fitch rating of between 25% and 30%. We're currently below that at 22%, that is one of the key components that gives us the capacity of Jim's war chest of a GBP1 billion on the current size of our balance sheet, that will take us back to the top end of 30%.

And I think that's very clear guidance. It is a sober way of approaching deals. I think the deals are always different in shape. So, you see going forward, they may look, it's not an unfair comment to make. Each deals had been a different shape and size. AXA was very front-end loaded in terms of cash release, SLAL is much more back-end loaded. And if you look in the German or Dutch or Irish market, again, they are very different. So, to answer your question, no, we're not changing them, because I think they have served us well to date.

A - Nicholas Lyons {BIO 16348625 <GO>}

Any other questions? On the wire.

A - Clive C R Bannister {BIO 2183003 <GO>}

Okay.

A - Nicholas Lyons {BIO 16348625 <GO>}

Yeah. (Inaudible).

Operator

Ibrahim Sayed [ph] from Deutsche Bank is asking about our debt issuance plans for the year, and whether we would need to issue debt to meet our GBP500 million to GBP1 billion BPA target?

A - Clive C R Bannister {BIO 2183003 <GO>}

Very simple answer. We never discuss debt issuance period. But to answer question, would we have to do something, as Jim said, our BPA and our target is somewhere around GBP750 million to a GBP1 billion of liabilities, circa 3% to 4% of the current market size, proportionate, selective and as we've said before funded from our own resources. Thus as we showed on the slide a GBP100 million capital strain and exactly the same will pertain this year.

A - Nicholas Lyons {BIO 16348625 <GO>}

Anything else from the Internet or the phone or anything else in the room? If not, I would just thank you again for your interest and your support and your time, and very, very much appreciated. We're going to get back to work to deliver what we've promised. Thank you.

A - Clive C R Bannister {BIO 2183003 <GO>}

Thank you very much indeed Chairman.

A - Nicholas Lyons {BIO 16348625 <GO>}

Thank you.