PHOENIX GROUP

Solvency II and future financial reporting

12 May 2016

Agenda

Welcome	Clive Bannister | Group Chief Executive
Introduction	Jim McConville | Group Finance Director
Solvency II update	Simon True | Group Chief Actuary
Management actions	Simon True | Group Chief Actuary
Future financial reporting	Rakesh Thakrar | Deputy Group Finance Director
Conclusions and Q&A	Jim McConville | Group Finance Director

Welcome

Clive Bannister

Introduction

Jim McConville

Phoenix Group now repositioned for future growth

Future aims	Supported by
• Enhancing customer service, communication and outcomes	✓ Retirement Strategy and third party partnerships ✓ Robust life company solvency
• Additional management actions to add value and accelerate cashflows	✓ Further options to simplify life and holding company structure
• Stable and sustainable dividend	✓ Long term cash generation target of £2.0 billion between 2016-2020
• Growth from acquisition opportunities	✓ Ongoing discussions with vendors ✓ Active in industry discussions with regards to future of UK life industry

Regulation has been the key driver for industry change in the UK

Capital

- New Solvency II regime now in force
- Internal Models vs Standard Formula
- Risk margin / transitionals
- Matching Adjustment portfolios
- Resilience of Solvency II capital to market movements

Conduct

- Pension freedoms have led to reduced annuity volumes
- Cap on exit charges currently under consultation
- FCA legacy review will drive industry investment in customer service
- Pension tax changes possible in the future

Solvency II will drive future management actions and financial reporting

Solvency II

- Solvency II position is robust and resilient
- Full Internal Model provides clarity over capital requirements
- Internal Model key driver of future management actions

Management actions

- Focus on improving Solvency II surplus
- Future management actions planned
- Internal Model allows accurate pricing of M&A and synergy benefits

Future financial reporting

- MCEV no longer useful metric
- Continuing focus on cash generation
- Key drivers of Free Surplus and cashflows
- Focus on smaller number of KPIs in future

Note: Market stresses assume recalculation of transitionals (subject to PRA approval)

Phoenix trading update

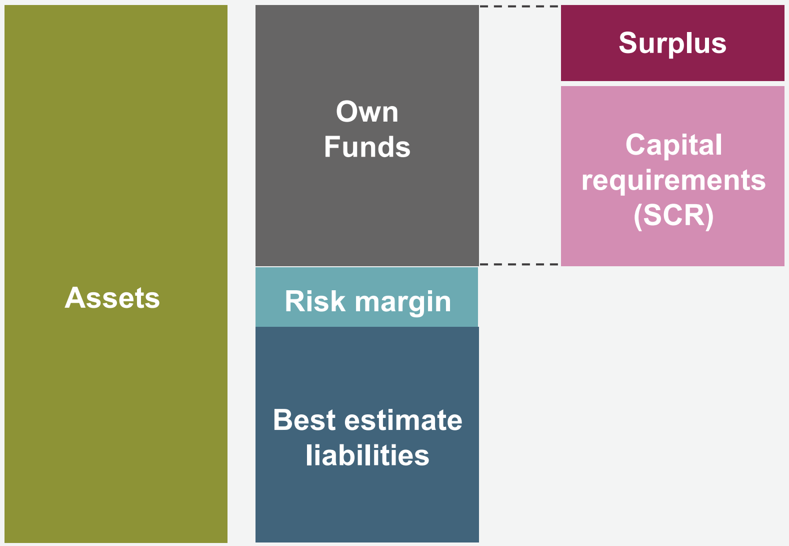
Cash generation	• Cash generation as at end April is £130 million • On target to meet 2016 cash generation target of £350 million to £450 million • Ongoing management actions to optimise Solvency II position
Debt actions	• Revised bank £650 million Revolving Credit facility agreed in March • Residual £6 million Tier 1 bonds repaid on 25 April
Industry issues/ M&A	• FCA legacy review published in March • Group remains confident of future consolidation opportunities

Solvency II update

Simon True

Solvency II: overview of capital requirements

Summary of Solvency II capital regime



Note: Graph illustrative and not to scale. Transitional measures offset Best Estimate Liabilities and Risk Margin

Capital protection for policyholders

"Buffers" that provide protection to policyholders under Solvency II:

- Risk margin
- Solvency Capital Requirement (SCR)
- Phoenix Life capital management policy
- Phoenix Life Free Surplus
- Holding company surplus

- Requirement that an insurance entity's capital ("Own Funds") exceeds its capital requirements
- Transitional measures smooth the introduction of Solvency II from the current capital regime
- Solvency Capital Requirements ("SCR") – calibrated at a 1 in 200 year event

Phoenix's Full Internal Model provides clarity over capital requirements

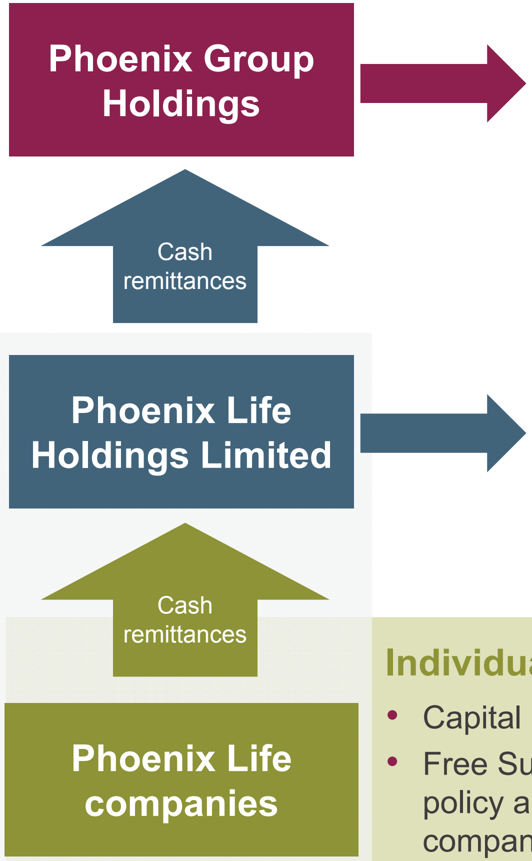
Benefits of Internal Model

- ✓ One of nine UK life companies to receive approval for Internal Model
- ✓ Ownership of capital requirements
- ✓ Cost/benefit analysis of management actions
- ✓ Pricing of risk/M&A
- ✓ Diversification benefits of M&A

1 in 200 year stress events

Standalone event	
Equities	-47%
Property	-38%
Change in long term interest rates	-161bps
Change in credit spreads (A rated, 10 year term)	+285bps
Change in UK life expectancy (65 year old male)	+3.3 years

Capital management framework under Solvency II unchanged



Debt interest and repayments
Shareholder dividends

Head office costs
Pension scheme contributions

Group solvency

- Full Internal Model
- Group capital position calculated at Phoenix Life Holdings Limited (‘PLHL’), the ultimate insurance parent undertaking in EEA
- Group surplus of £1.3 billion, of which £0.6 billion is held within Phoenix Life as capital policies

Individual company solvency

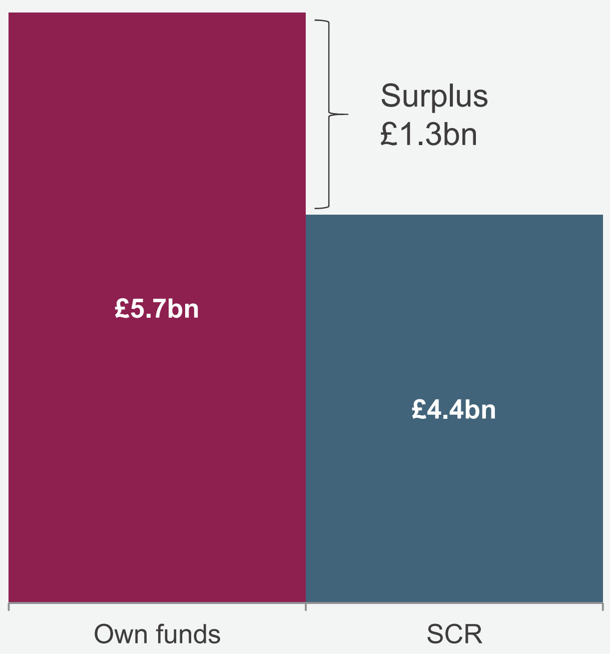
- Capital policies held on top of SCR
- Free Surplus represents excess over capital policy and can be distributed to holding companies as cash
- Opening Free Surplus of £97 million within Phoenix Life supports cash generation target
- Additional c.£125 million of financial assets in Opal Re at FY15

Phoenix risk management is dependent on the product type

Product	Shareholder exposure	Principal shareholder risks
Unsupported with-profits	• Typically the shareholder receives 10% of declared bonus (90:10 structure)	• Indirect Market / ALM risk • Indirect Longevity risk • Indirect Lapse risk
Supported with-profits	• Shareholder capital exposed to 100% downside until estate is rebuilt to cover capital requirements	• Market / ALM risk • Longevity risk • Lapse risk
Non-profit (unit-linked)	• Shareholders indirect exposure through fund-related charges	• Indirect Market risk • Lapse risk
Non-profit (annuities) and shareholder funds	• Shareholder directly exposed to all investment and demographic risks	• Longevity risk • Credit / ALM risk • Lapse risk

Overview of Solvency II capital position at FY15

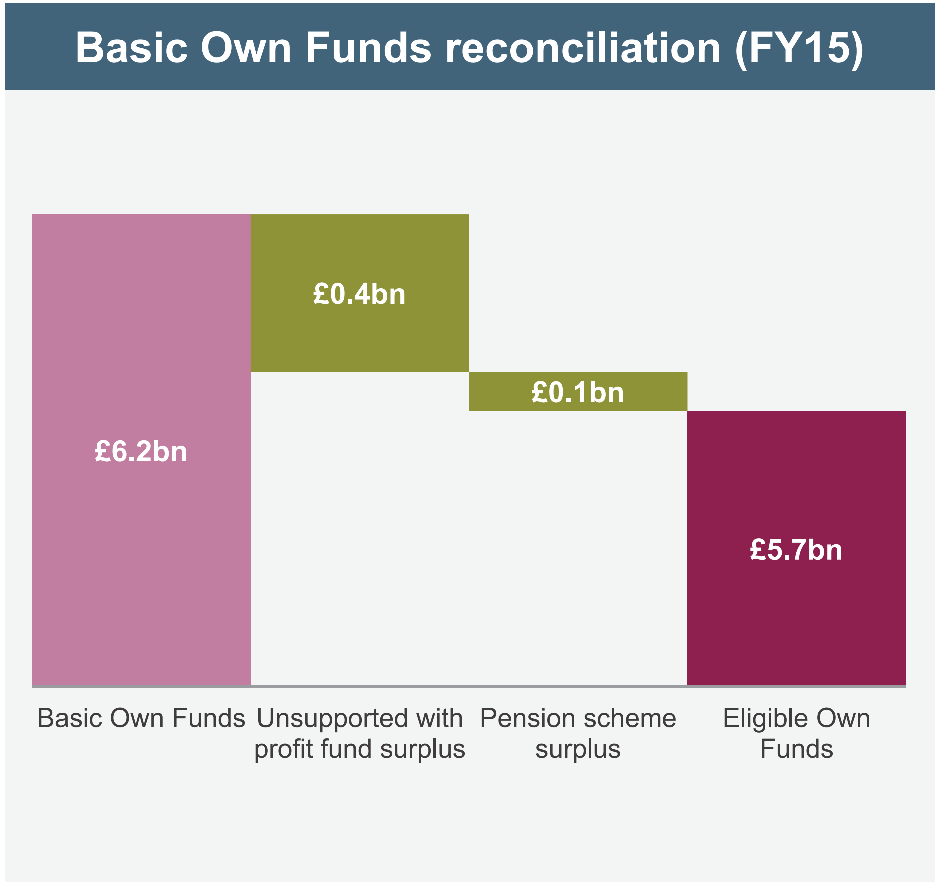
Total Solvency II surplus (FY15)



- Phoenix Group capital requirements calculated at PLHL using a Full Internal Model
- Solvency Capital Requirements ("SCR") – calibrated at a 1 in 200 year event
- Surplus over SCR of £1.3 billion

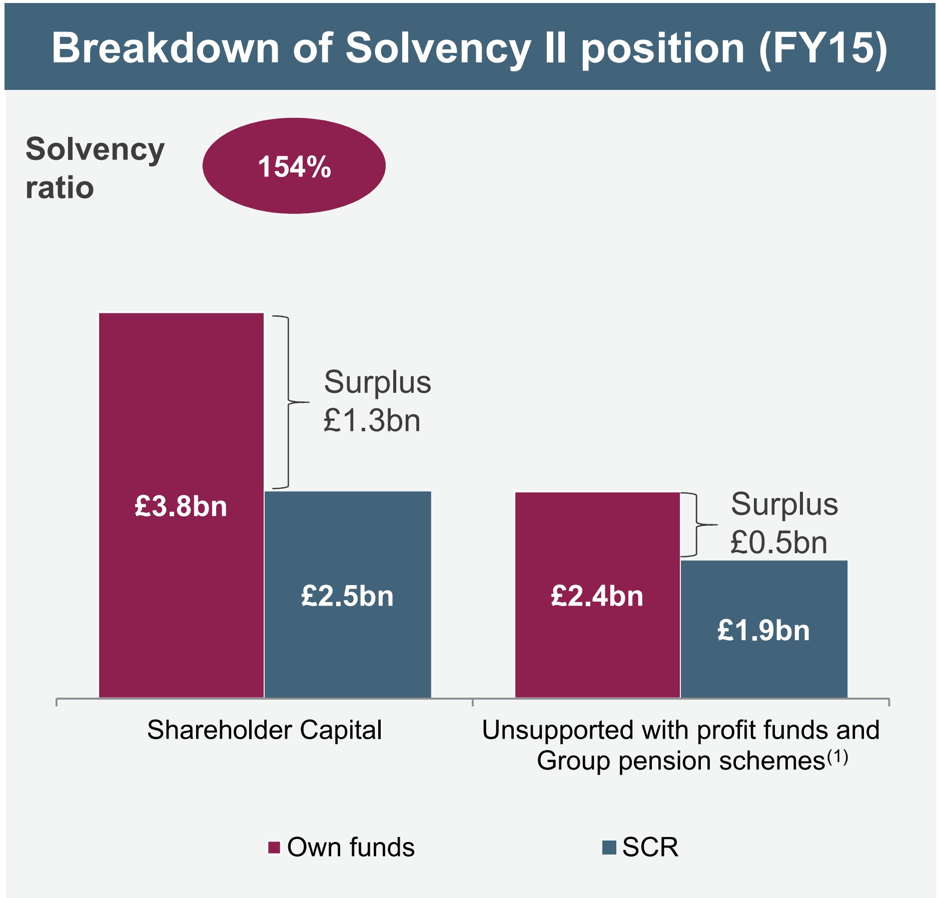
Notes: (1) Finalised Solvency II position resulted in Own Funds and SCR being £0.1 billion lower than estimated position as per FY15 results presentation. Surplus is unchanged.

Unrecognised additional surpluses within the Group



- Additional surplus over SCR within unsupported with profit funds and Group pension schemes are excluded from total surplus
- £0.4 billion of unrecognised surplus in unsupported with profits funds
- £0.1 billion of unrecognised surplus in PGL Group pension scheme

Shareholder Capital coverage ratio of 154%

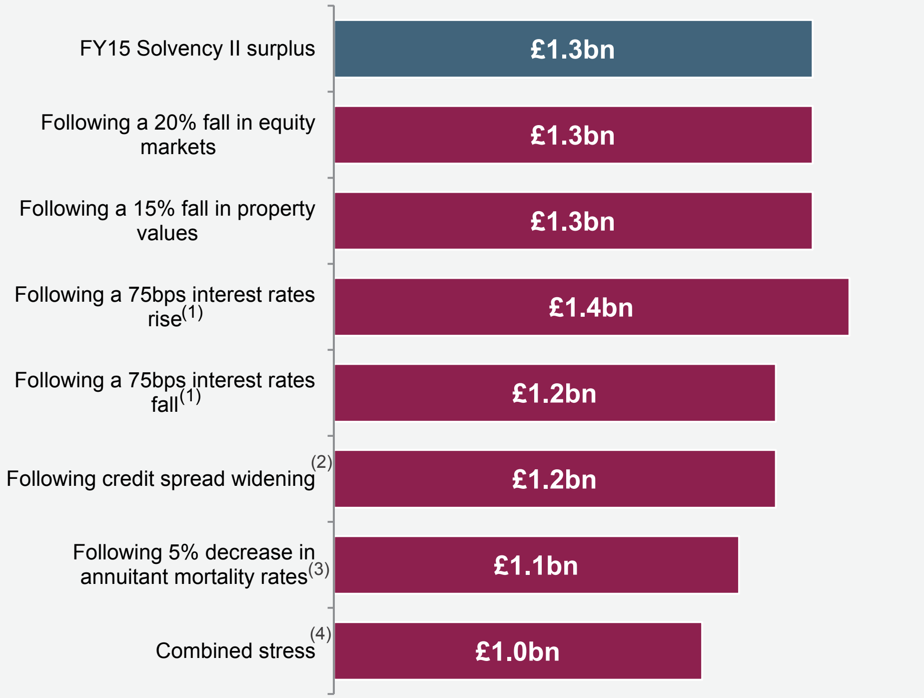


- Shareholder Capital ratio calculation excludes Own Funds and SCR of unsupported with profit funds and PGL Group pension scheme
- Own Funds of unsupported with profit funds include £2.0 billion of estate
- Phoenix's unsupported with profit funds have a stated strategy of estate acceleration
- Shareholders will typically benefit from 10% of the estate distributed over the lifetime of the fund

Notes: (1) Includes both unsupported with-profit funds together with the PGL Group pension scheme, whose Own Funds exceed their SCR. Where the Own Funds of a with-profit fund or Group pension scheme do not cover its SCR, those amounts are included in the Shareholder Capital surplus. The Own Funds and the SCR of the Pearl Group pension scheme is included within the Shareholder Capital position. Within £2.4 billion of Own Funds, estate of supported with profit funds is £2.0 billion and Own Funds of PGL Group pension scheme are £0.4 billion.

Solvency II surplus is resilient to market movements[1]

Sensitivities of PLHL Solvency II surplus

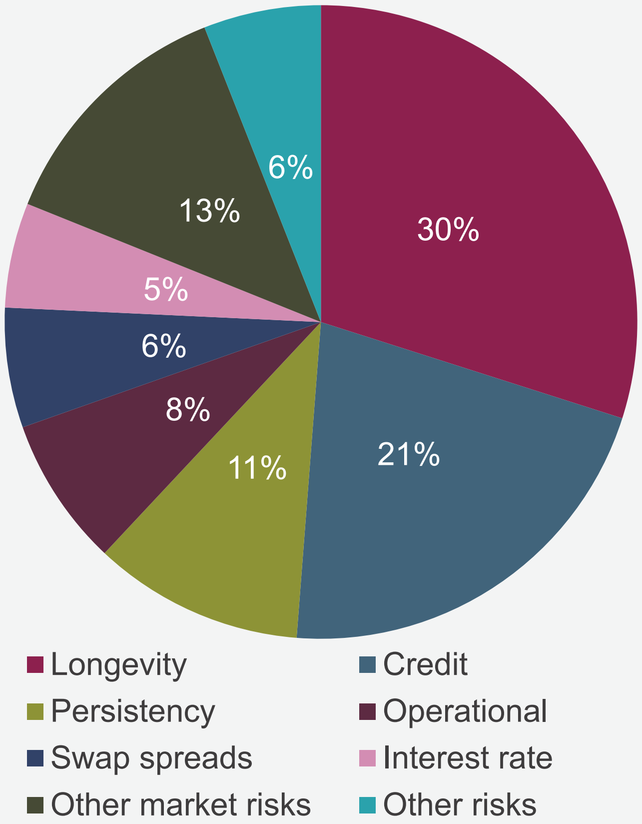


- Surplus is relatively insensitive to market movements[1]
- £0.5 billion of surplus within unsupported with profit funds and Group pension schemes provides additional resilience

Notes: (1) Assumes recalculation of transitionals (subject to PRA approval)
(2) Credit stress equivalent to an average 100bps spread widening across ratings, 10% of which is due to defaults/downgrades
(3) Equivalent of 6 months increase in longevity
(4) Assumes 20% fall in equity markets, a 75bps interest rates fall and credit spread widening. Assumes recalculation of transitionals (subject to PRA approval)

Key capital requirements are longevity and credit

PLHL SCR by risk type



- Majority of SCR relates to longevity and credit risk
- Focus on group is to minimise unrewarded risk
- Acquisition targets could provide capital synergies through increased diversification of risks

Notes: (1) Split of SCR at PLHL level (pre diversification benefits)

Phoenix uses its Internal Model to manage its risks under Solvency II

Product	Shareholder exposure
Unsupported with-profits	• Typically the shareholder receives 10% of declared bonus (90:10 structure)
Supported with-profits	• Shareholder capital exposed to 100% downside until estate is rebuilt to cover capital requirements
Non-profit (unit-linked)	• Shareholders indirect exposure through fund-related charges
Non-profit (annuities) and shareholder funds	• Shareholder directly exposed to all investment and demographic risks

Internal Model benefits	
✓	Ownership of capital requirements
✓	Cost/benefit analysis of management actions
✓	Pricing of risk/M&A
✓	Diversification benefits of M&A

Management actions

Simon True

How management actions add value under Solvency II

Increase overall cashflows

Increase Solvency II Own Funds

- Investment in new asset classes
- Improved modelling/ risk management
- Reduced expenses
- Improved customer engagement

Accelerate cashflows

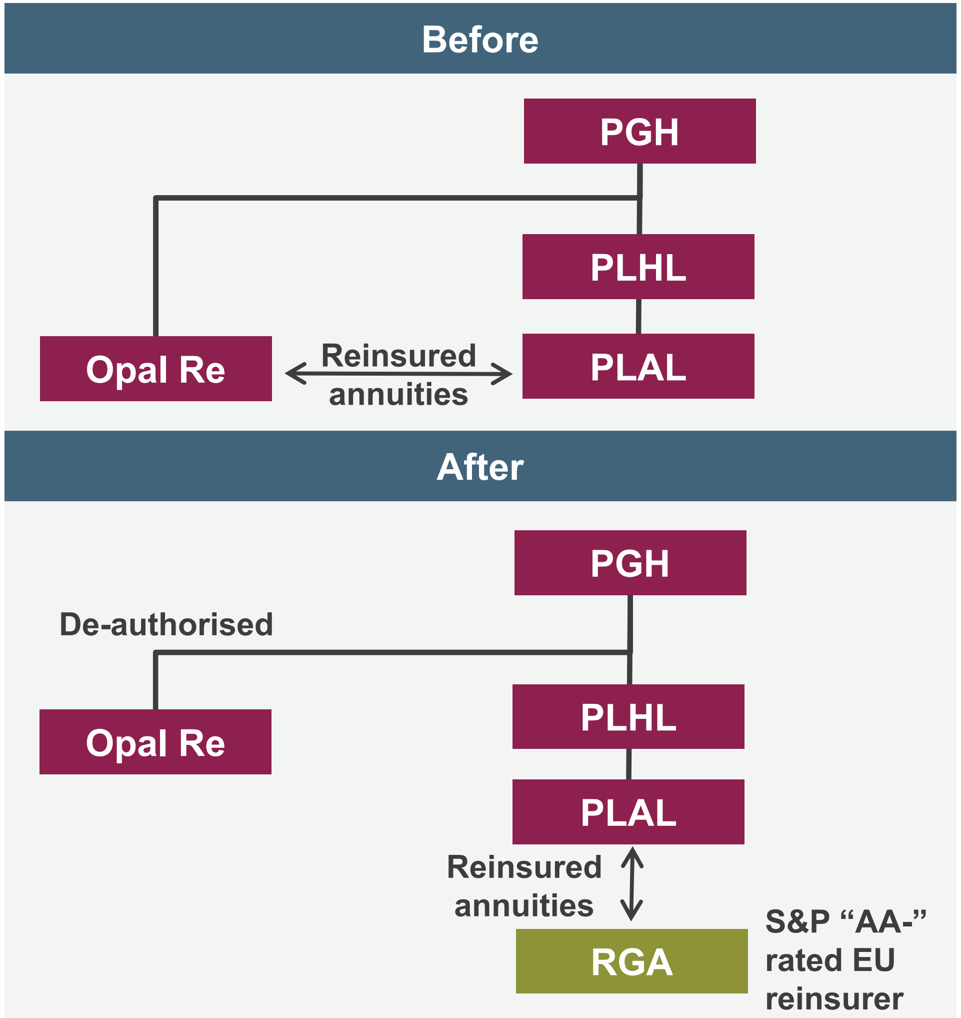
Reduce Solvency II SCR

- Matching Adjustment portfolios
- Longevity reinsurance
- Hedging of market risks
- Operational risk mitigation

Solvency II surplus

Aim to maximise Solvency II surplus to increase and accelerate cashflows

2015 Solvency II management actions – Reinsurance



- Opal Re was the Group's unrated Bermudan reinsurer
- Under Solvency II the Group would have been required to hold additional capital within the UK life company
- Recapturing liabilities and reinsuring £1.3 billion of these to a strongly rated external reinsurer based in the EU reduced Solvency II capital requirements
- Actions to realise residual c.£125 million Opal Re assets in due course

✓ Improved PLHL Solvency II surplus by £135 million

2015 Solvency II management actions – Portfolio restructuring

Annuity Matching Adjustment portfolios

- Sold ineligible or inefficient assets
- Optimised Matching Adjustment eligible buy-and-maintain mandate
- Implemented asset liability matching process

Credit reallocation

- Sold credit assets to better align risk and return under the Solvency II regime

Gilts/swaps basis risk

- Sold Gilts and invested into cash and swaps to align to the new Solvency II risk free rate
- Unwound Gilt Swap spread locks held under Solvency I

Planned management actions for next three years

RESTRUCTURING

Fund mergers

Part VII transfer of annuity portfolio to Guardian

OPERATIONAL MANAGEMENT

Strategic asset allocation

Credit optimisation

Cost efficiency

RISK MANAGEMENT

Financial risk optimisation

Operational risk reduction

Reassurance

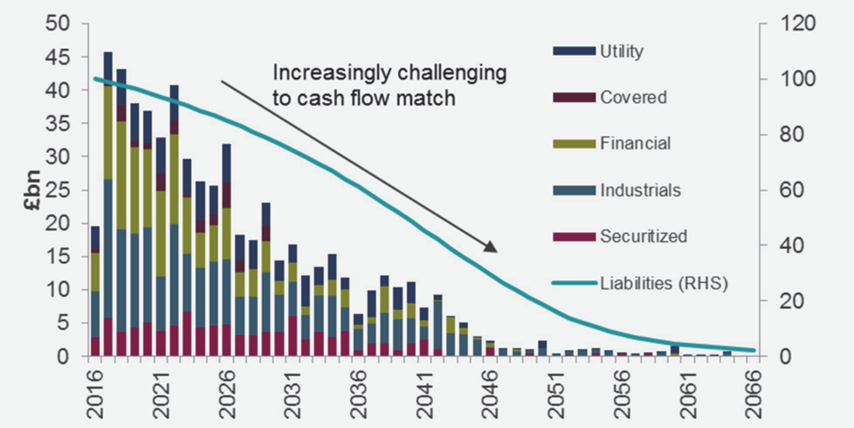
EFFECTIVE PARTNERSHIPS

Investment in new asset classes in co-operation with asset manager partners

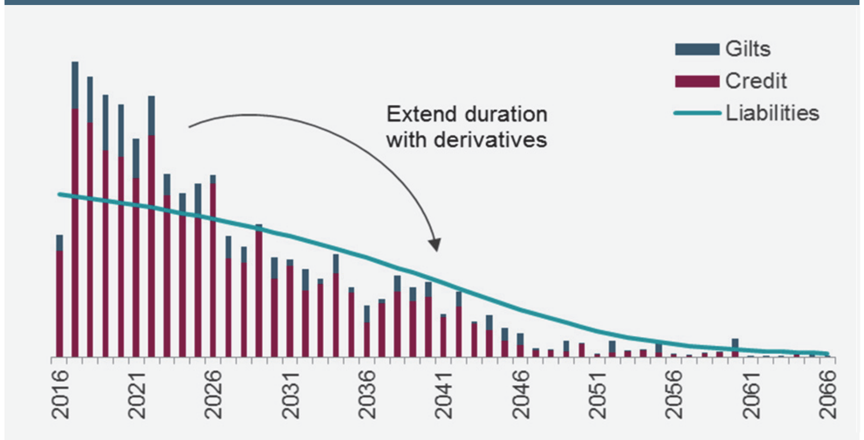
Just Retirement provides product range to customer base

Future actions: Further Matching Adjustment portfolios

Corporate bond market cash flows



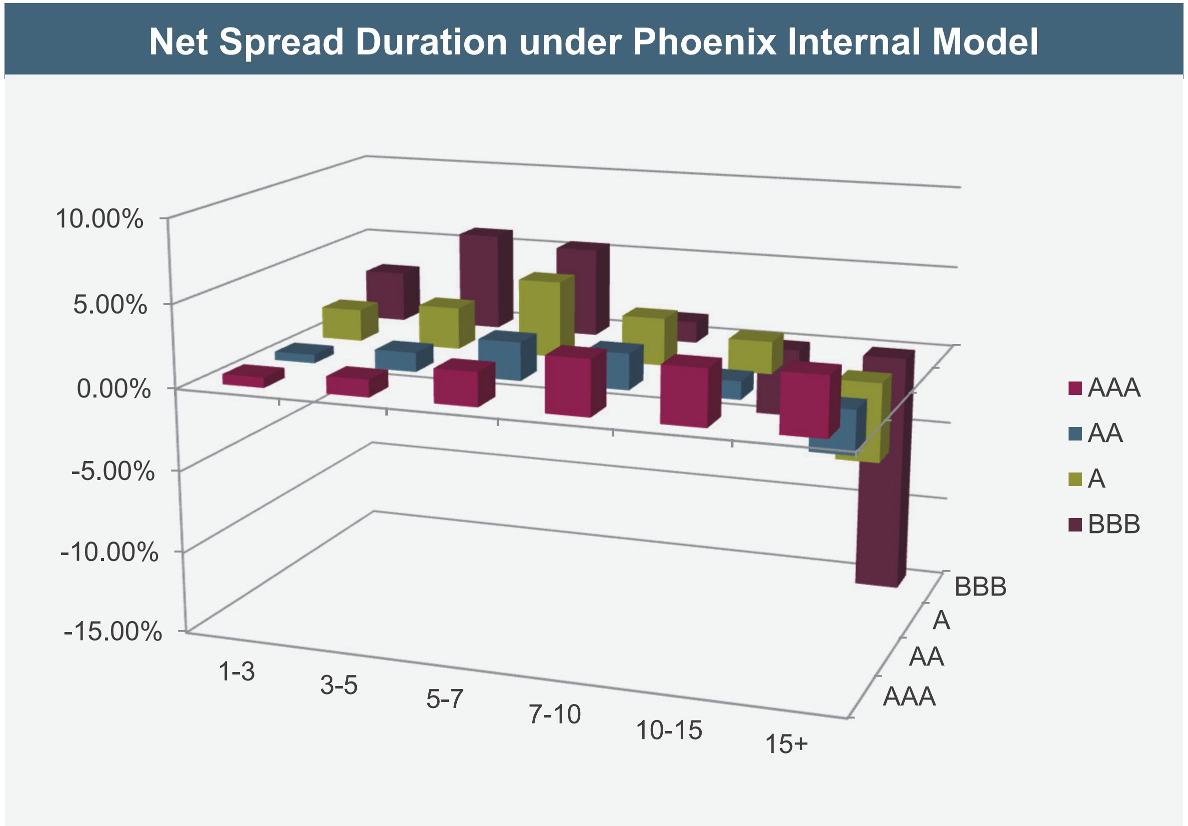
Potential allocation for Phoenix



- Matching Adjustment (MA) portfolios consist of illiquid long term liabilities (eg annuities) matched by long term assets (eg corporate bonds)
- Additional spread earned on credit portfolio increases the valuation discount rate applied to the liabilities – increasing Own Funds
- Phoenix considering extending the Matching Adjustment application to include other liabilities within the Group (eg deferred annuities)
- A successful investment strategy needs to maximise risk adjusted returns:
  - Long dated GBP credit supply is limited and not efficient under Internal Model
  - Requirement to find higher yielding, long dated assets

Notes: Charts are illustrative. Future Matching Adjustment applications are subject to PRA approval

Future actions: Optimising credit portfolios



- The investment strategy is based on a return on capital basis
- This approach favours short to medium dated higher quality credit vs longer-dated bonds
- In particular, long-dated BBB bonds provide a material negative return on capital
- The introduction of this strategy across the Group's annuity fund has had tangible benefits in an improvement in return on capital

Notes: Charts are illustrative

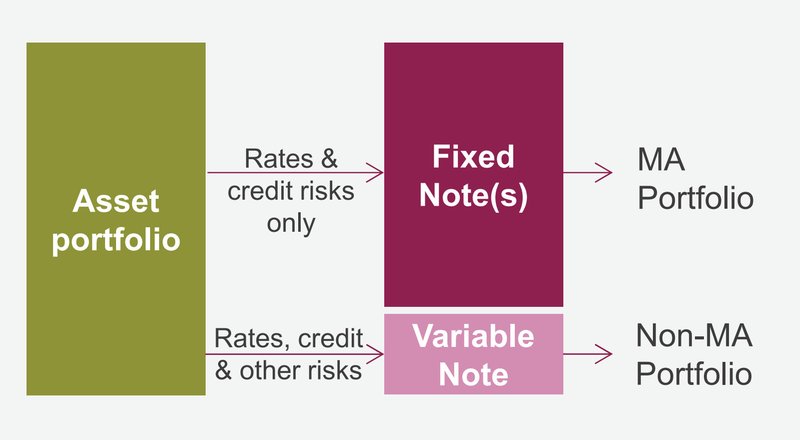
Future actions: Investing in new asset classes

- Potential benefit if high yielding alternative asset classes can be restructured within Matching Adjustment portfolios[1]
- There are a range of possible eligible assets, subject to internal rating frameworks and regulatory interaction
  - Accessing bank disintermediation space: infrastructure; commercial real estate; local authority loans; private placements
  - Diversifying corporate credit into US$/€ assets
- Currently inefficient assets, where required SCR is onerous, could benefit from internal securitised structures

Certain inefficient assets for MA…

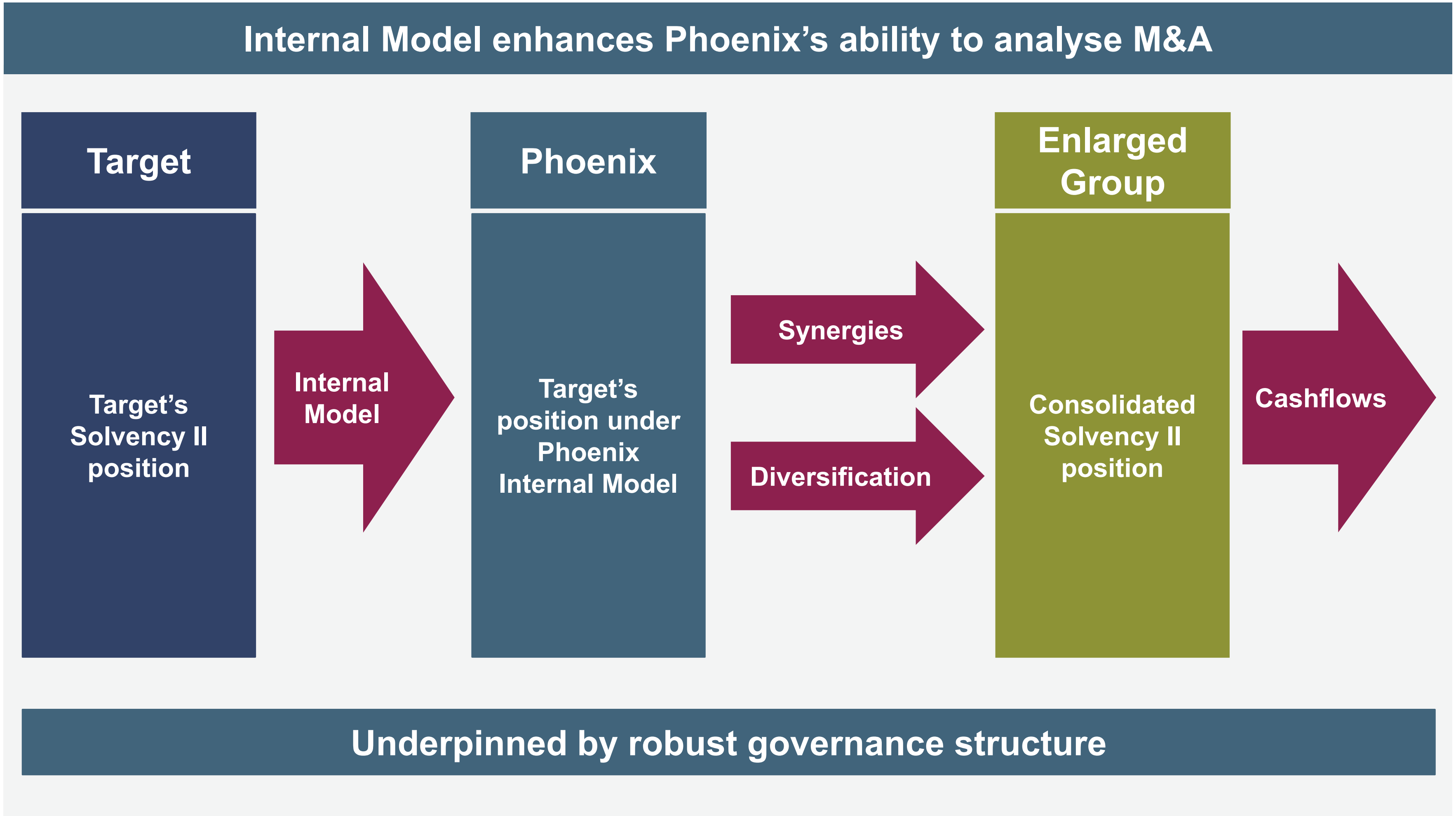
Inefficient features in an MA portfolio	Example assets
Biometric risks	Equity release mortgages (ERM)
Prepayment risk	Callable bonds, ERM
Sub-investment grade bonds/loans	SME loans, Leveraged loans

…can be adapted through securitisation



(1) Assets restructured within Matching Adjustment portfolios would be subject to PRA approval

Internal Model provides stable platform for assessing acquisitions



Conclusions

- Strong and resilient Solvency II position
- No change to Phoenix’s focus on cash generation
- Well understood capital requirements, with Internal Model providing clarity
- Solvency II has opened up new opportunities for management actions, with Internal Model now key driver of management actions
- M&A benefits from Internal Model, including more accurate pricing and understanding of synergy and diversification benefits

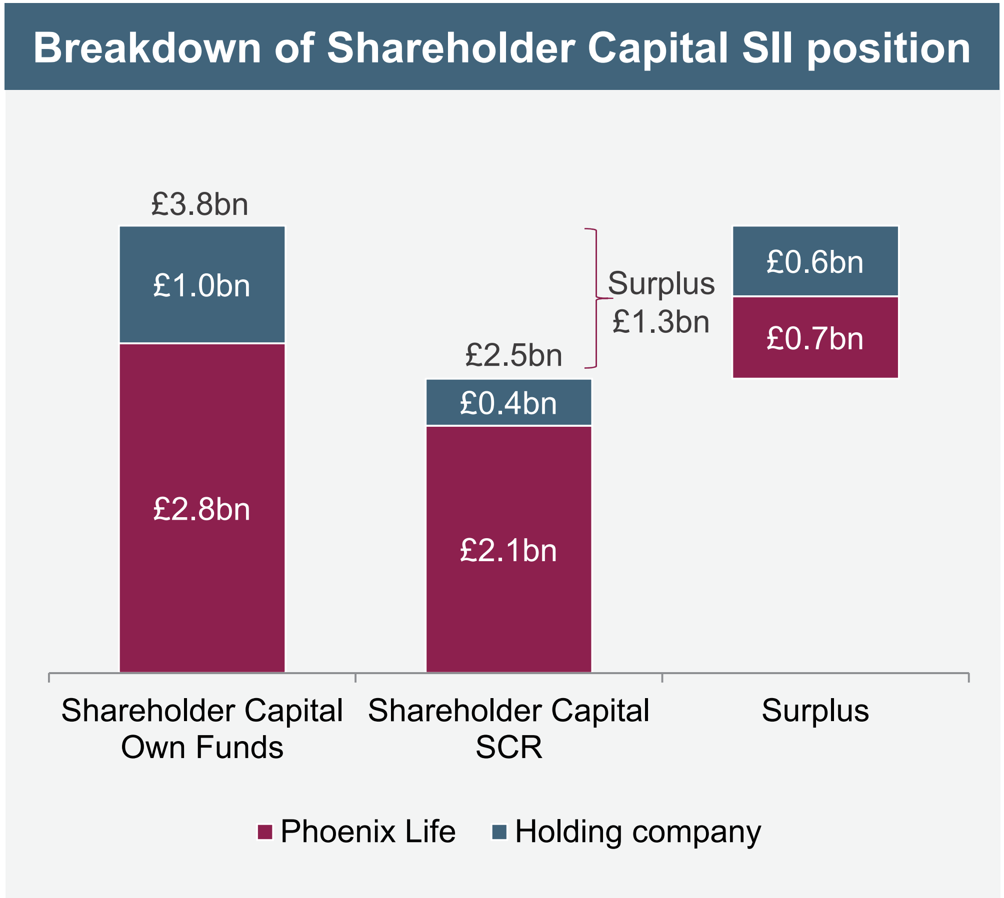
Future financial reporting

Rakesh Thakrar

Phoenix's focus will be on cashflows in future

Solvency II impact on MCEV	• Solvency II implementation has removed the need for an alternative valuation measure that recognises the value of future cash flows
Focus on future cashflow	• Cashflows remitted from Phoenix Life driven by Free Surplus generation • Free Surplus generated from a number of sources
Future KPIs	• Reduced number of financial KPIs to be reported from HY16 • Aligned with long term management incentives

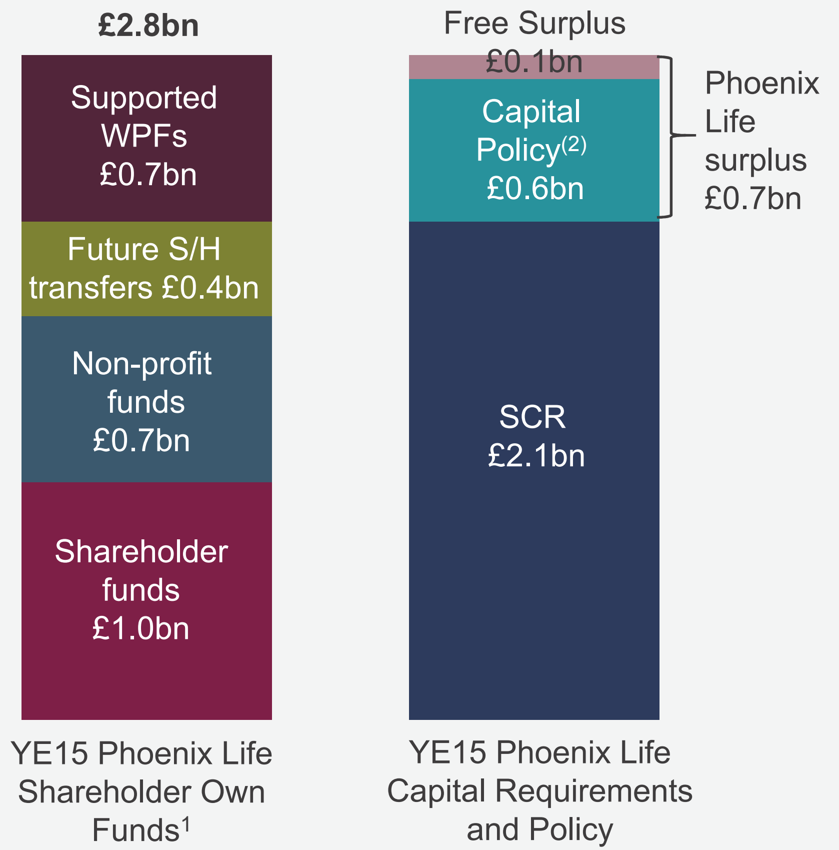
Breakdown of Solvency II Shareholder Capital position



- Shareholder Capital position can be further broken down into Phoenix Life and Holding Company positions
- The Holding Companies contribution to the PLHL surplus principally comprises:
  - £0.7bn of holding company cash; and
  - the deficit on the Group's Pearl Pension Scheme (where its IAS 19 surplus is insufficient to cover its SCR)
- The contribution of Phoenix Life to the PLHL surplus is analysed in detail on the next slide

Own Funds within Phoenix Life consist of a variety of products

Breakdown of Phoenix Life SII position

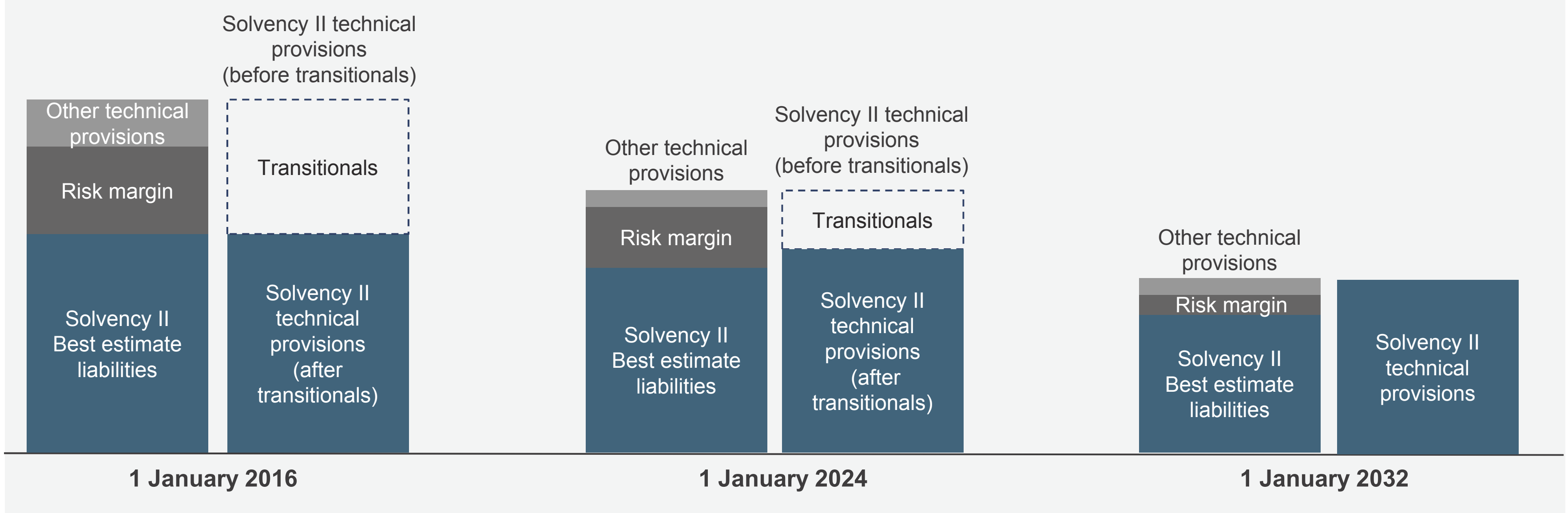


- Own Funds consist of value from a range of products within the life companies and surplus assets in the service companies
- Free Surplus represents the excess over the capital management policies of Phoenix Life
- As such, Free Surplus underpins the Group's cash generation

(1) Excludes Own Funds in unsupported with-profit funds with the exception of future shareholder transfers
(2) Based on current Board approved Capital Management Policy

Run-off of transitional measures partially mitigated by the reduction in the risk margin and other provisions

Illustrative Solvency II evolution of liabilities

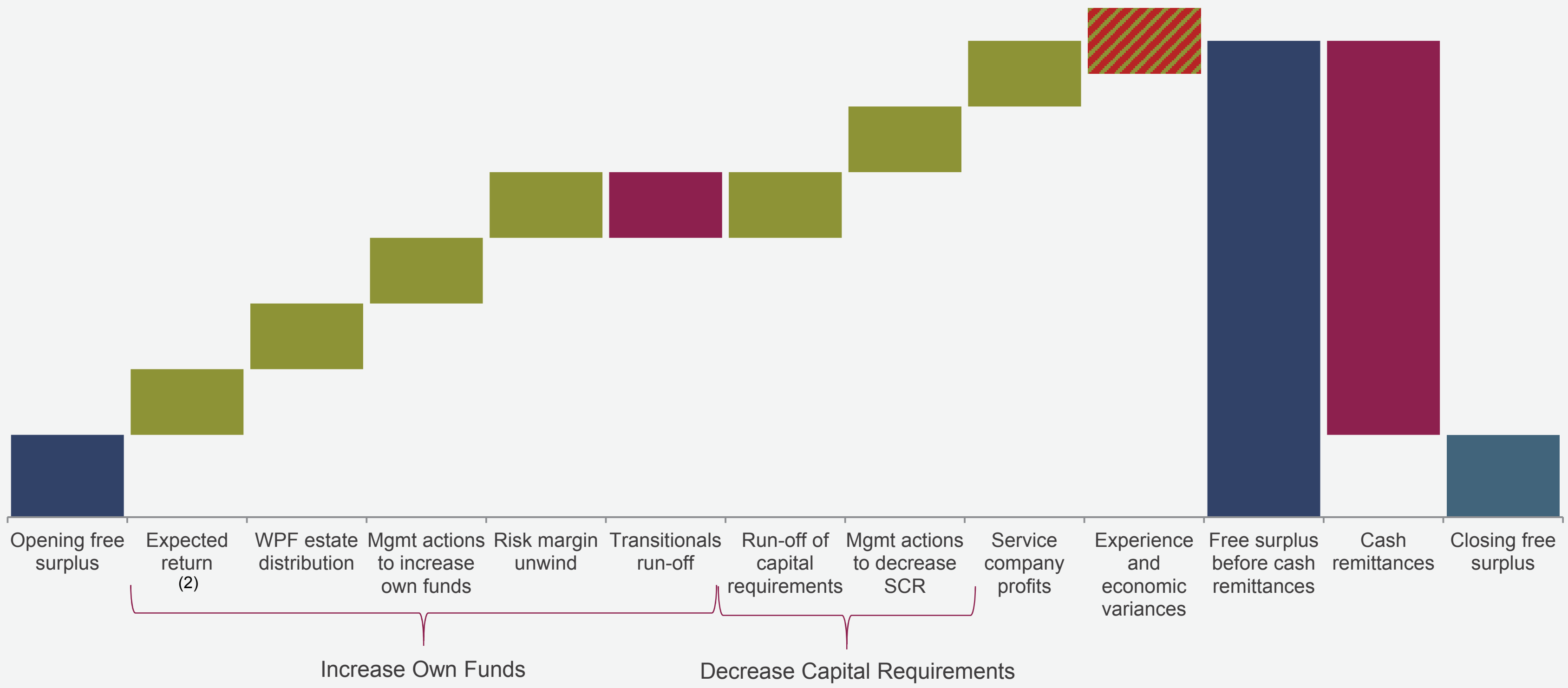


- Transitional measures will run-off over 16 years and will reflect the run-off of the business as per Solvency II implementation
- The risk margin and other liabilities will also run-off over the duration of the liabilities to mitigate the adverse impact of the run-off of transitional measures

Note: Graphs illustrative and not to scale

Solvency II Free Surplus drives cash generation

Key drivers of Free Surplus under Solvency II(1)



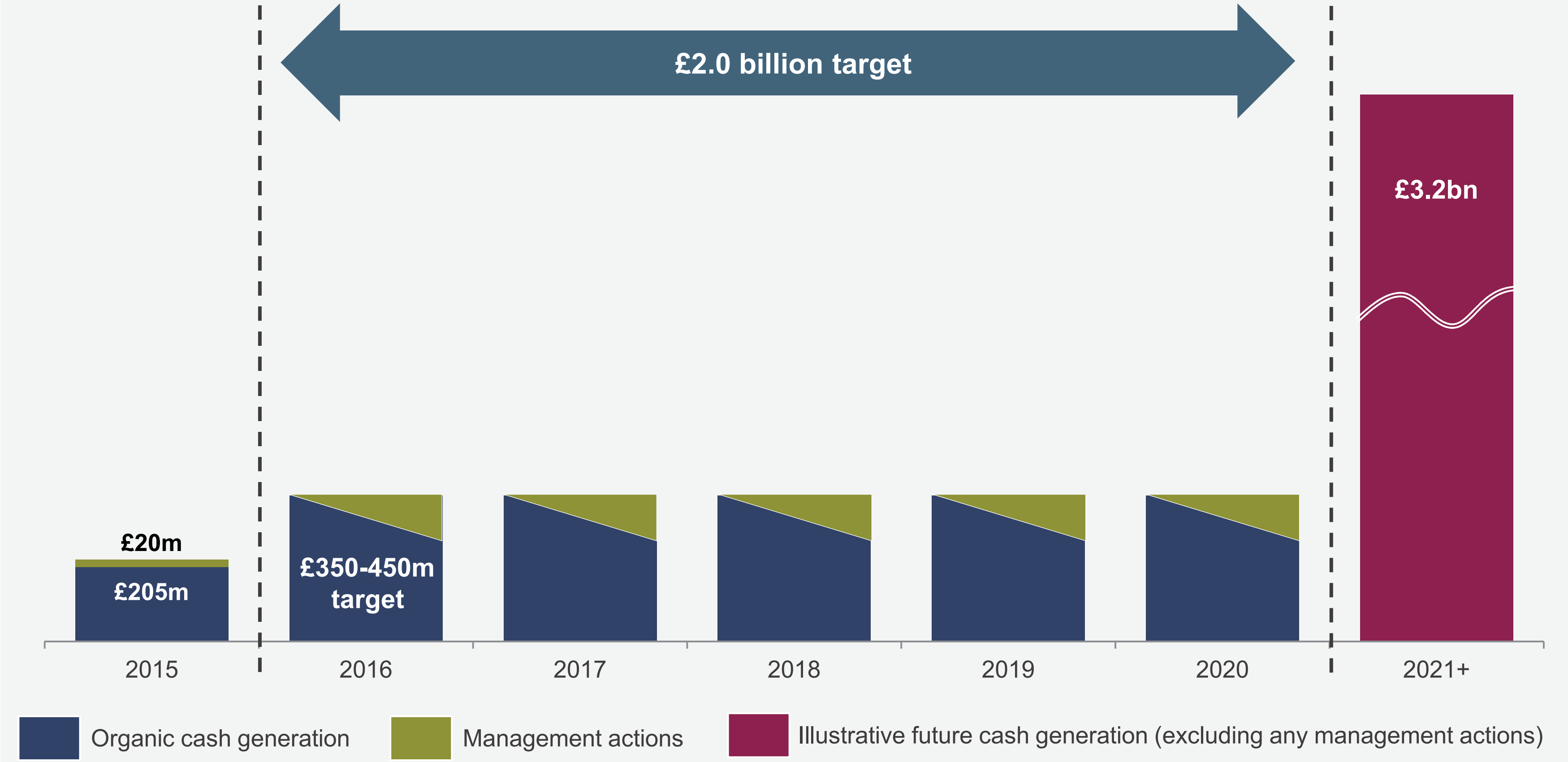
Notes: (1) Not to scale
(2) Net of interest on PLL subordinated debt

Key drivers of Free Surplus generation

Metric	Basis of calculation
Expected return	Risk free rate plus risk premium on Shareholder Own Funds Includes new business from vesting annuities
Unsupported With Profit Fund estate distribution	Approximate 10% share of future estate distributions from strong with profit funds
Management actions	Increase in Own Funds or reduction in capital requirements dependent on management actions taken during period
Risk margin/transitional unwind	Broadly offset as transitionals run-off over 16 years
Capital requirements	Run-off of Shareholder SCR and capital management policy in-line with business
Service company profits	IFRS profit after tax
Experience and economic variances	Variances based on actual experience over period

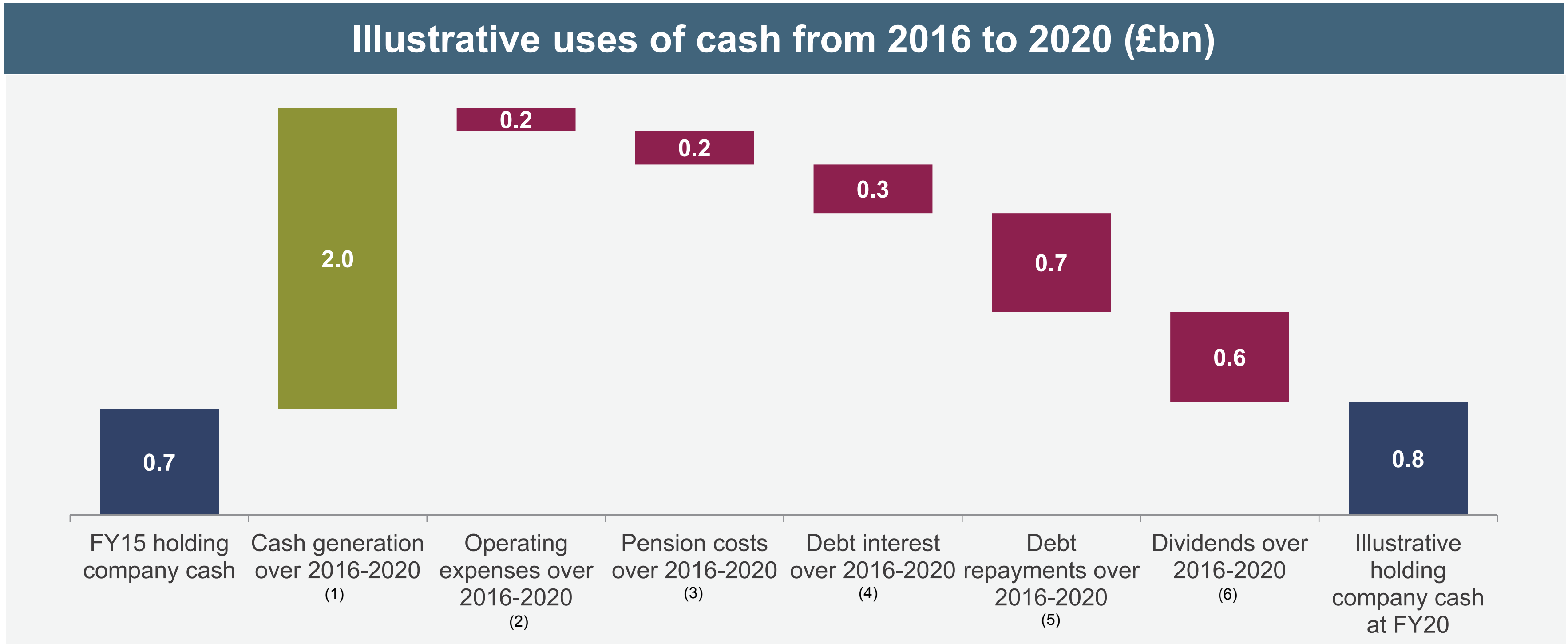
There is an expected £5.2 billion of cashflow from the existing business from 2016 onwards

Illustrative future cash generation(1)



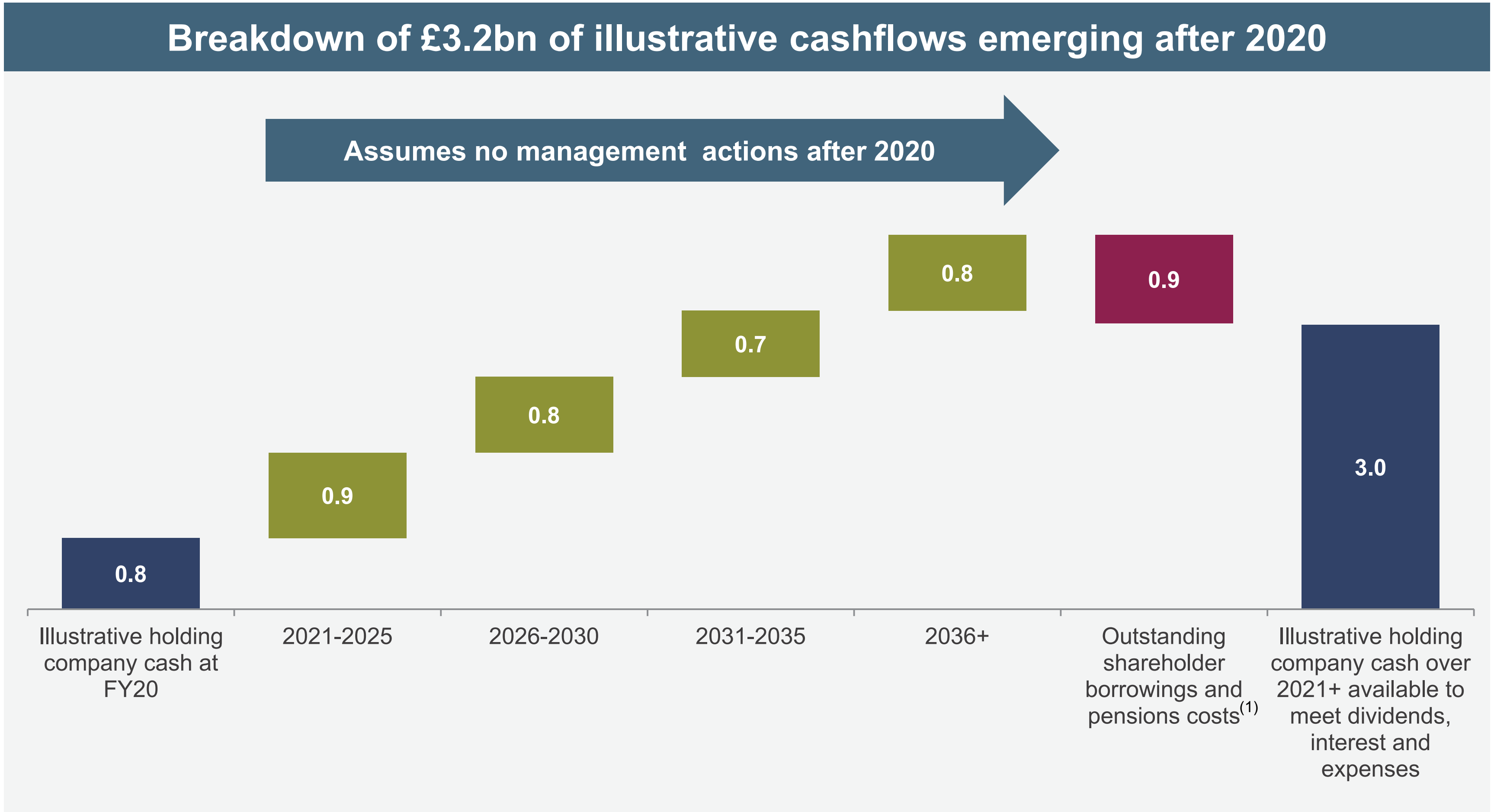
Notes: (1) Not to scale. Transitionals are assumed to run-off on a linear basis

Long term cash generation supports the Group dividend policy



Notes:
(1) £2.0 billion 2016-2020 cash generation target
(2) Illustrative operating expenses of £30 million per annum over 2016 to 2020
(3) Pension scheme contributions estimated in line with current funding agreements. Comprising £40 million p.a. from 2016 to 2020 in respect of the Pearl scheme and £15 million in 2016 and £10 million in 2017 in respect of the PGL scheme
(4) Bank facility interest costs estimated using average rate of 3.27% per annum over the period 2016 to 2020 (calculated using the interpolated 4.5 year mid-swap rate plus current bank facility margin of 1.75%). Includes interest on the Group's listed bonds, excluding interest on PLL Tier 2 bonds which are incurred directly by Phoenix Life Limited
(5) £6m Tier 1 bonds called in 2016 and £650 million revolving credit facility has a maturity date of June 2020
(6) Illustrative dividend assumed at current cost of £120 million per annum over 2016 to 2020

Cashflows will emerge over an extended period



Notes: (1) £40 million pension contributions due on Pearl scheme in 2021. Total shareholder borrowings at 31 December 2015 less repayment assumed between 2016-2020

Solvency II implementation results in refocused financial KPIs

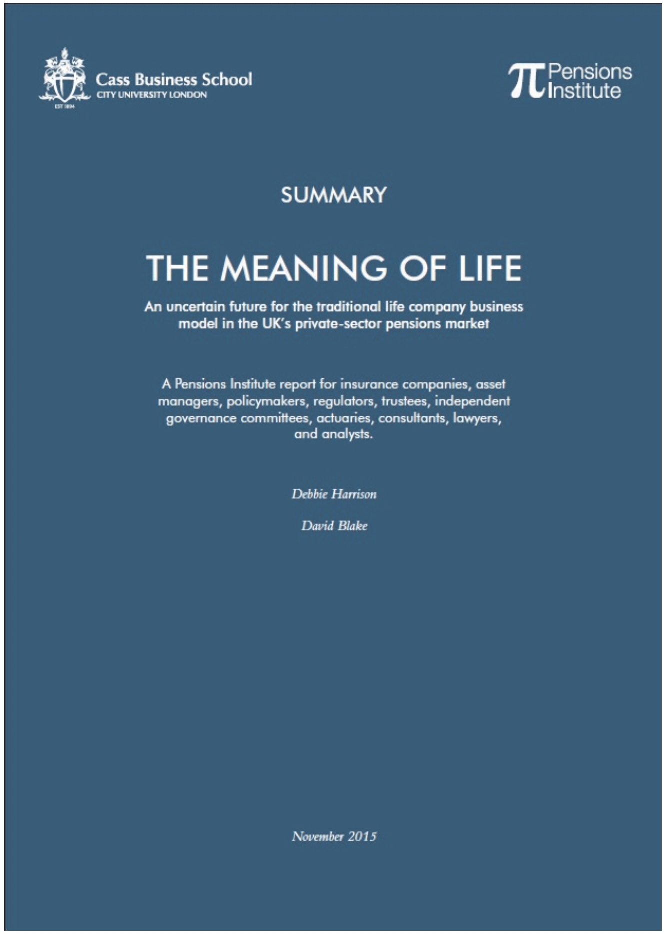
KPI	FY15	HY16
Free Surplus generation (including management actions)	✓	✓
Operating companies cash generation (including management actions)	✓	✓
Group IFRS operating profits	✓	✓
PLHL Solvency II surplus & Shareholder Capital coverage ratio	✓	✓
Dividend per share	✓	✓
Financial leverage (Phoenix basis)	✓	Maintenance of IG rating
Group MCEV	✓	✗
PLHL IGD and PLHL ICA surplus	✓	✗

- Focus on a smaller number of financial KPIs going forward
- Solvency II disclosures offer a clearer link to cash generation, and this remains the Group's main focus
- Phoenix will continue to review financial disclosure as industry metrics develop

Conclusions

Jim McConville

“Meaning of Life” report raised specific challenges in the coming years


Cass Business School
CITY UNIVERSITY LONDON
Pensions Institute
SUMMARY
THE MEANING OF LIFE
An uncertain future for the traditional life company business model in the UK’s private-sector pensions market
A Pensions Institute report for insurance companies, asset managers, policymakers, regulators, trustees, independent governance committees, actuaries, consultants, lawyers, and analysts.
Debbie Harrison
David Blake
November 2015

- Rapid expansion of DC workplace schemes but assets to be dominated by 5-7 major providers
- Traditional life assurance business model under threat from new entrants (eg master trusts)
- Future changes to pensions tax regime likely to result in further market disruption
- Mid-tier, traditional providers under greatest pressure
- Likely consolidation of industry by 2020, with expected surge in sales of legacy back books
- However, market suffers from a skills shortage, in particular for with-profits books

Summary

- Strong and resilient Solvency II position
- Phoenix's Full Internal Model is PRA approved, with a robust governance structure
- The Internal Model provides a stable platform for analysis of future management actions
- Also facilitates pricing of M&A transactions, including synergy benefits
- Focus remains on cashflows, driven by Free Surplus generation within Phoenix Life

Q&A

Disclaimer and other information

- This presentation in relation to Phoenix Group Holdings and its subsidiaries (the ‘Group’) contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group’s current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives
- Statements containing the words: ‘believes’, ‘intends’, ‘will’, ‘expects’, ‘may’, ‘should’, ‘plans’, ‘aims’, ‘seeks’, ‘continues’, ‘targets’ and ‘anticipates’ or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group’s control. For example, certain insurance risk disclosures are dependent on the Group’s choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated
- Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's “Solvency II” requirements on the Group’s capital maintenance requirements; the impact of inflation and deflation; market development and government actions regarding the referendum on UK membership of the European Union; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate
- As a result, the Group’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within this presentation. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this presentation or any other forward-looking statements or data it may make or publish
- Nothing in this presentation should be construed as a profit forecast or estimate
- Any references to Solvency II relate to the relevant calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking