PHOENIX GROUP

Cash generation, management actions and opportunities for growth

16 May 2013

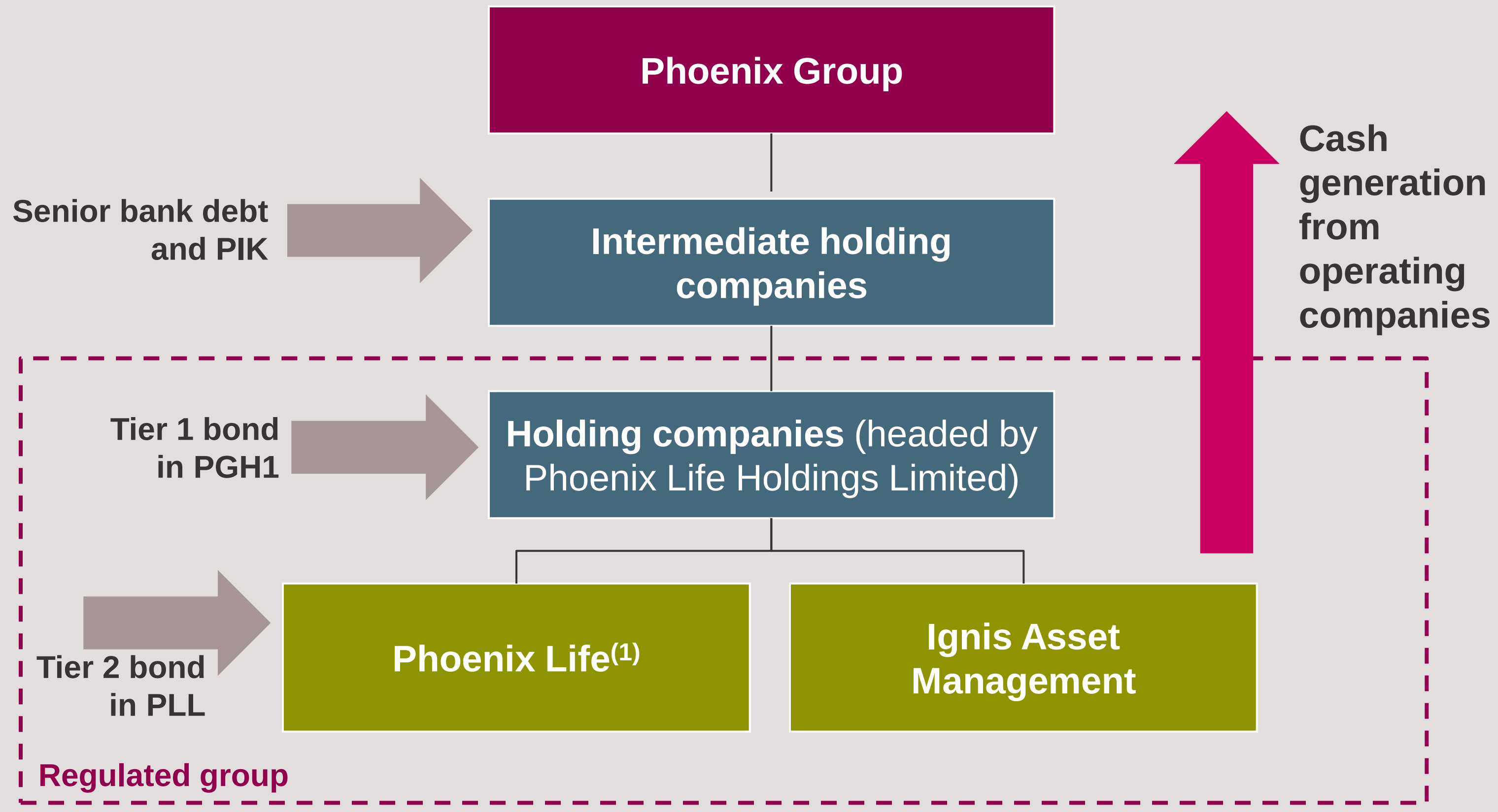
Agenda

Introduction	Clive Bannister | Group Chief Executive
Cash generation	Jim McConville | Group Finance Director
Management actions	Mike Merrick | Chief Executive of Phoenix Life
Opportunities for growth	Fiona Clutterbuck | Head of Strategy, Corporate Development and Communications
Wrap up and Q&A	Clive Bannister

Introduction

Clive Bannister

Phoenix Group overview



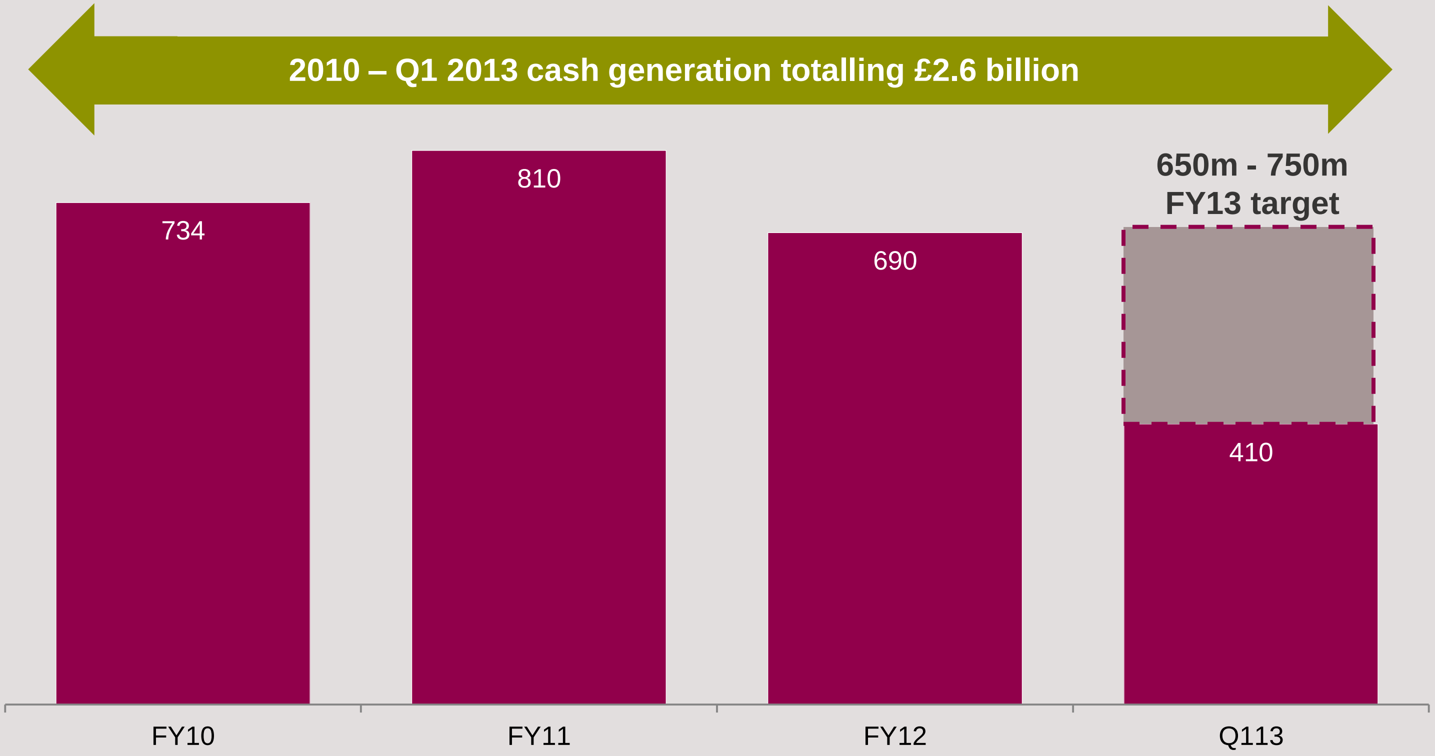
Notes: (1) Includes service companies

Cash generation

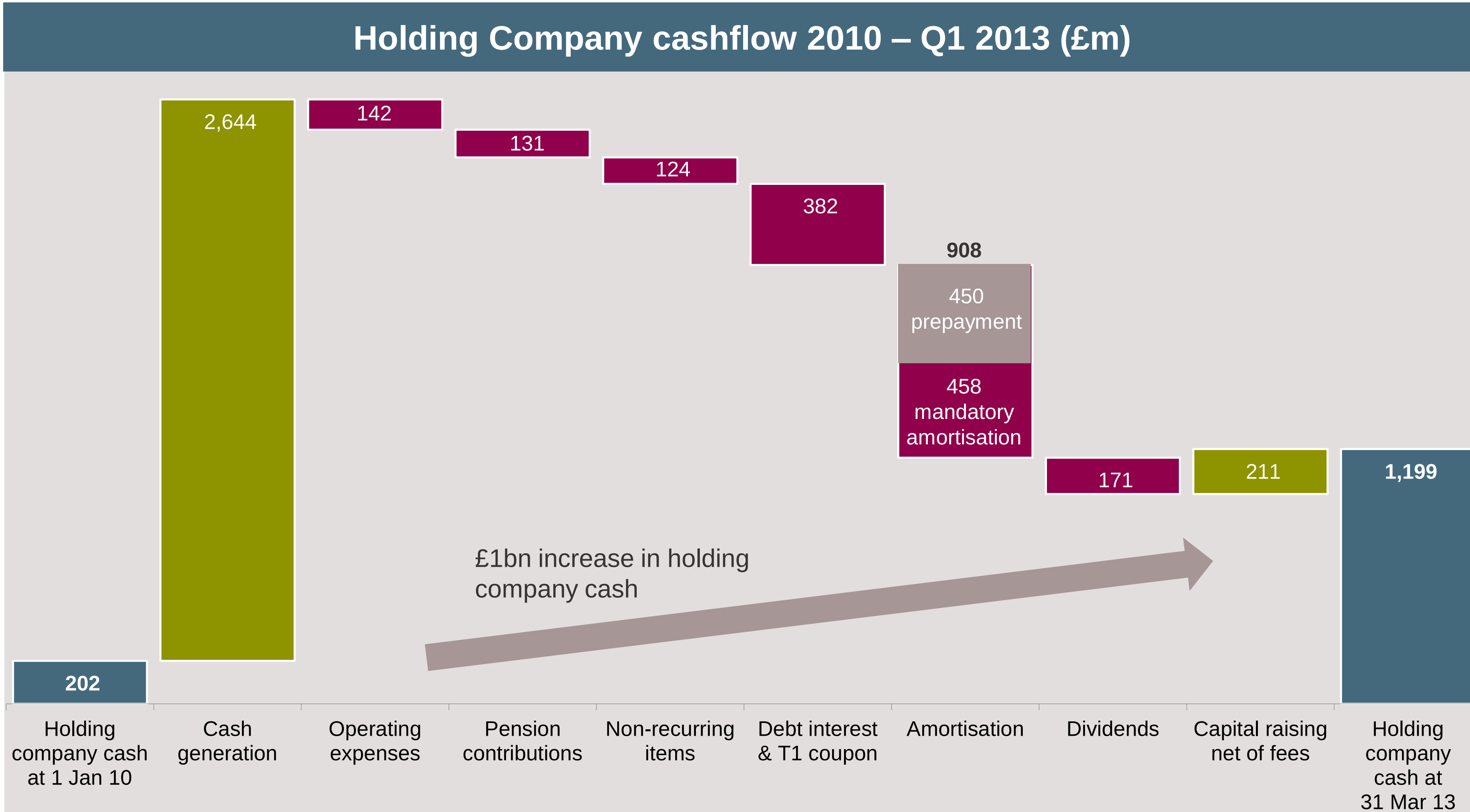
Jim McConville

Consistent cash generation totalling £2.6 billion between 2010 and Q1 2013

Holding Company cash generation (£m)



Significant cash generation and increasing holding company cash



£9 billion of undiscounted cash expected to be generated over life of book

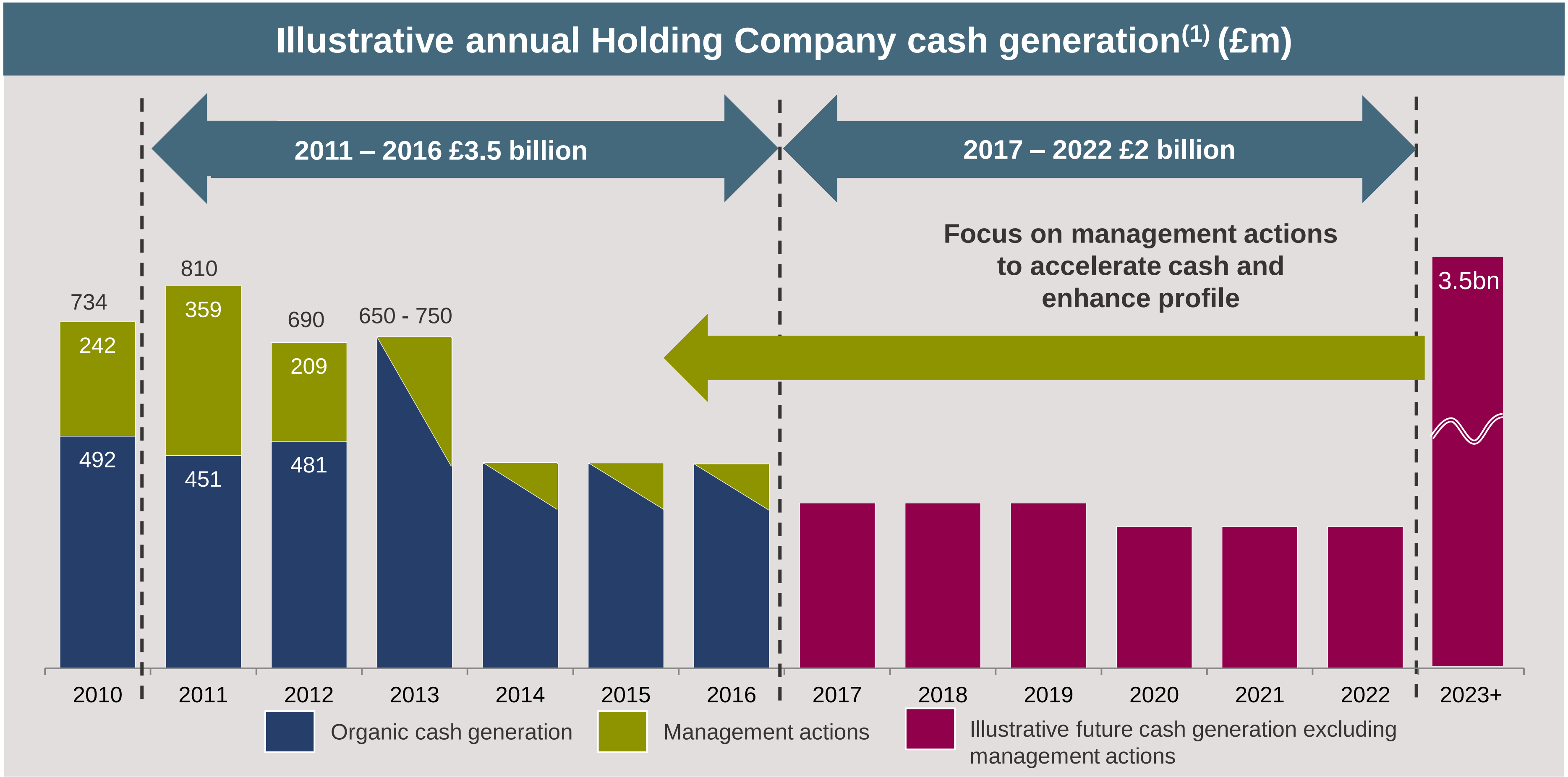
2011 - 2016	2017 – 2022(1)	2023 and beyond(1)	Total(1)
£3.5 billion	**£2 billion**	**£3.5 billion**	**£9 billion**

Includes certain management actions

No allowance for enhanced or accelerated cash generation from management actions

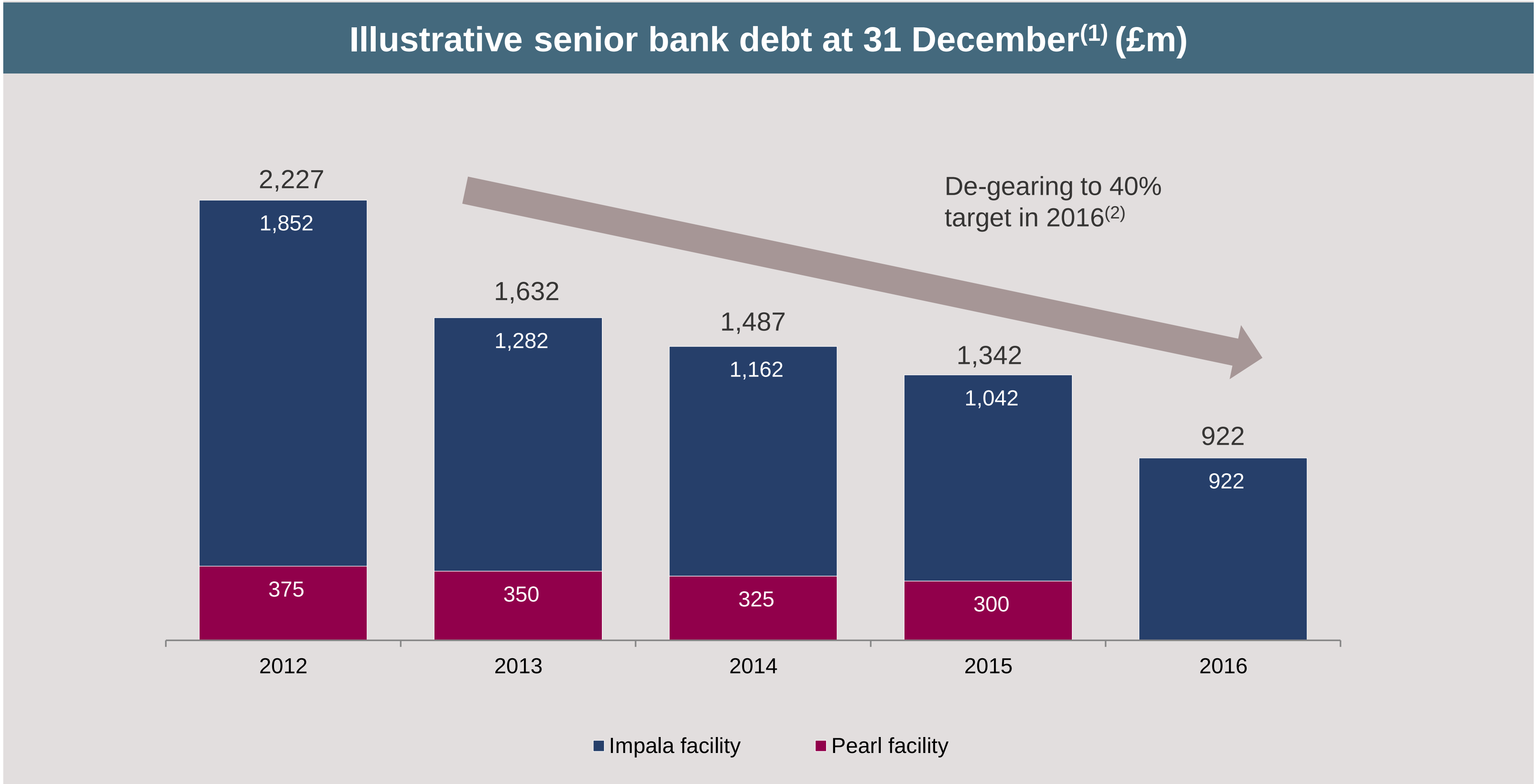
Notes: (1) Illustrative cash generation based on internal models to 2042

Strong cash generation expected to continue for many years and can be enhanced through management actions



Notes: (1) Not to scale

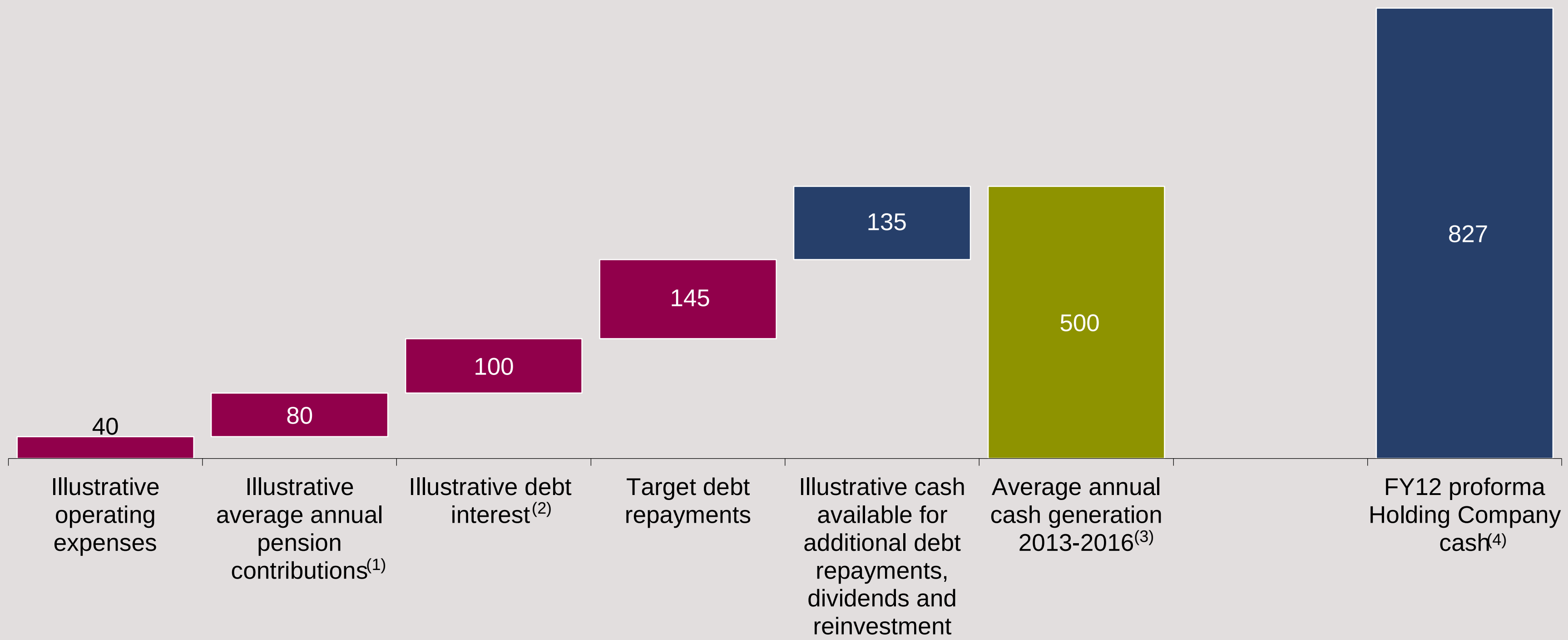
Clear path to de-gearing to allow access to debt capital markets



Notes: (1) Assumes mandatory amortisation of £25m p.a. and repayment of £300 million bullet in 2016 on Pearl facility and target amortisation of £120 million p.a. on Impala facility
(2) Gearing target represents gross shareholder debt as a percentage of gross MCEV. Gross shareholder debt comprises senior bank debt, Pearl loan note, Tier 1 bonds, Tier 2 bonds and PIK note

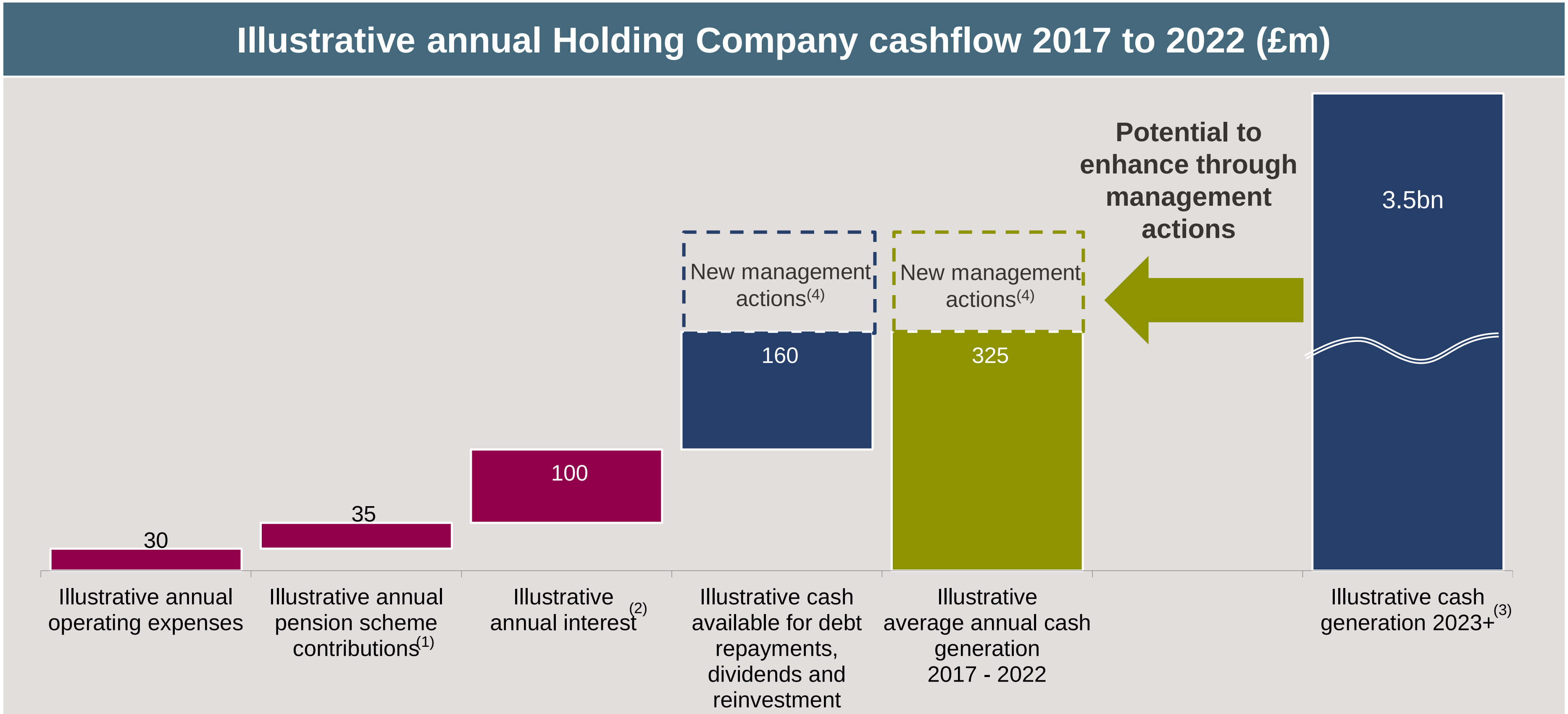
Dividends met by strong and predictable cash generation over target period to 2016…

Illustrative annual Holding Company cashflow 2013 to 2016 (£m)



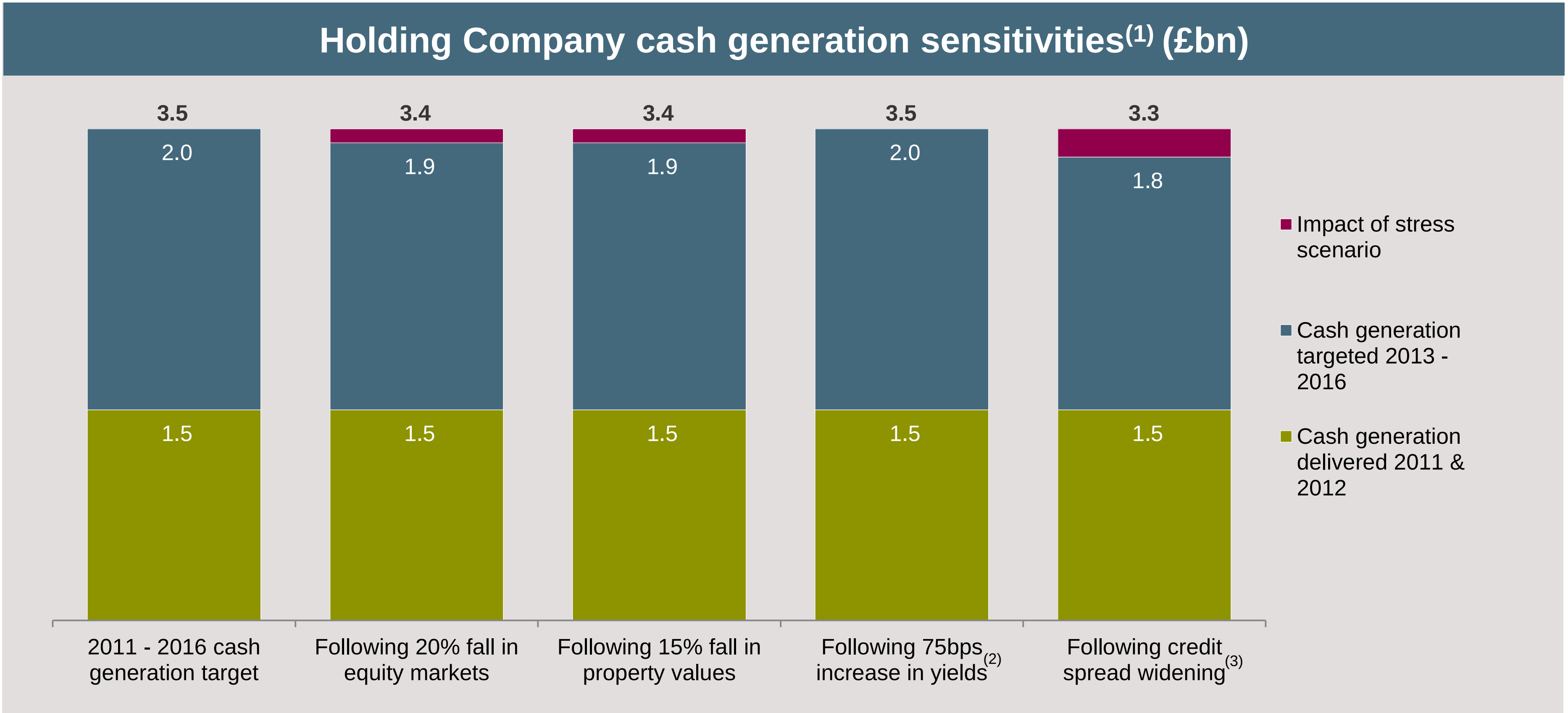
Notes:
(1) Comprises £55m of contributions into the Pearl Scheme, representing expected average of contributions under new funding plan of £70m p.a. in 2013 and 2014 and £40m p.a. in 2015 and 2016, and £25m of contributions into the PGL Scheme (for illustrative purposes only) being the 2012 contribution into the PGL Scheme
(2) Includes Tier 1 coupon and illustrative average interest cost over 4 years to 2016, assuming target amortisation on Impala of £120 million and mandatory amortisation on Pearl of £25m
(3) Based on increased long-term cash generation target of £3.5bn between 2011 and 2016, less cash generation achieved in 2011 and 2012 totalling £1.5bn. Includes certain management actions
(4) FY12 Holding Company cash of £1,066 million adjusted for Impala debt prepayment made from internal resources of £239 million

…and in the future, as we look to replace senior lending with long-dated capital market debt



Notes:
(1) Comprises annual average of expected contributions into the Pearl Scheme under new funding plan of £40m p.a. 2017 – 2021 and assumes no contributions during this period to the PGL Scheme
(2) Represents illustrative average interest cost comprising existing coupon of 6.5864% on £425 million Tier 1 bond and assuming 8% coupon on £0.9 billion of capital market debt
(3) Based on illustrative cash generation of £2bn between 2017 and 2022
(4) Not to scale

Cash generation resilient in stress conditions



Notes: (1) Chart shows expected cash generation between 2011 and 2016 following each individual market stress. Stress scenarios assume stress occurs on 1 January 2013 and assume no recovery in market conditions during target period

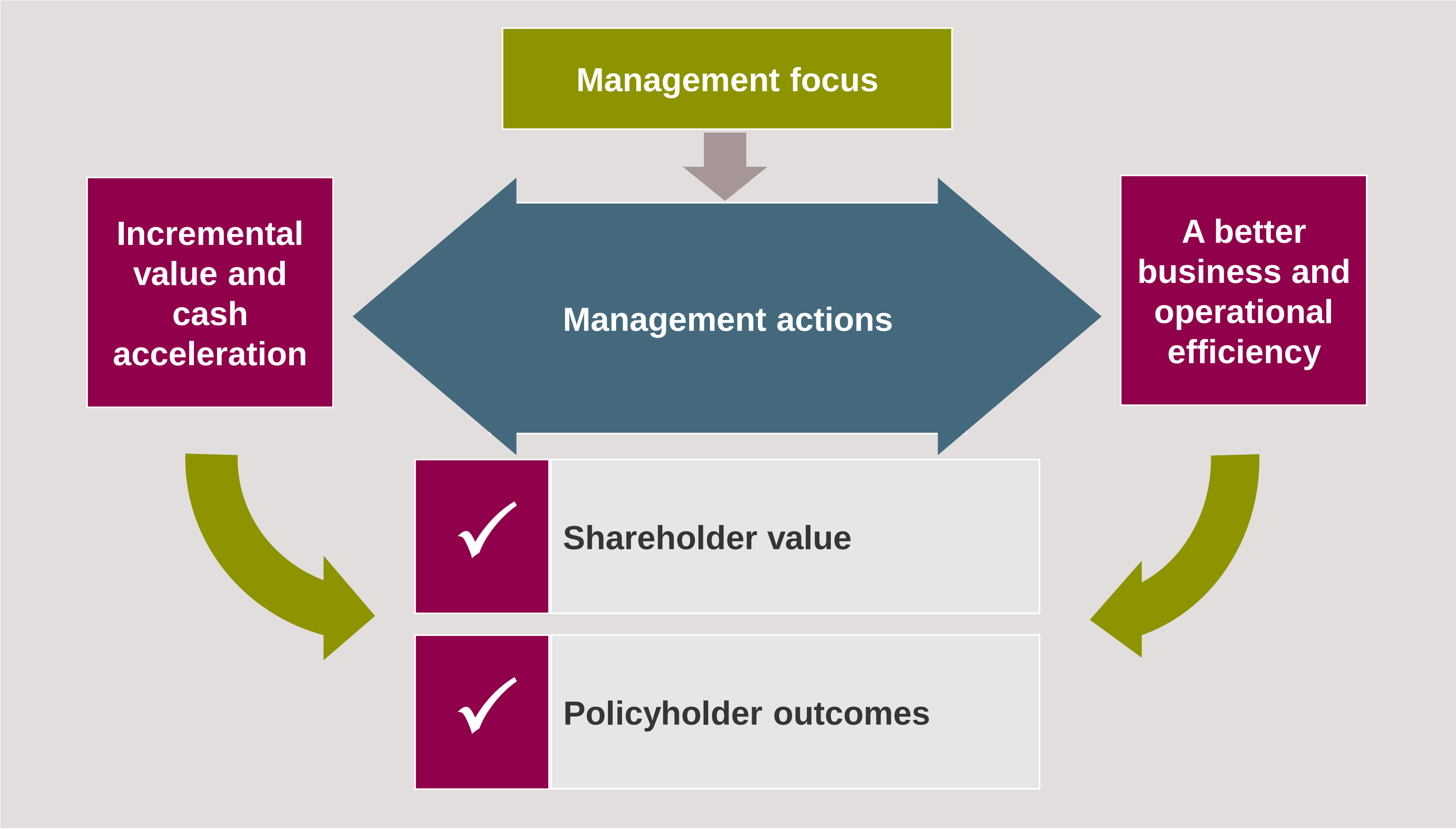
(2) Represents a real yield reduction of 25bps

(3) 10 year term: AAA – 46bps, AA – 77bps, A – 99bps, BBB – 140bps, 30% default rate

Management actions

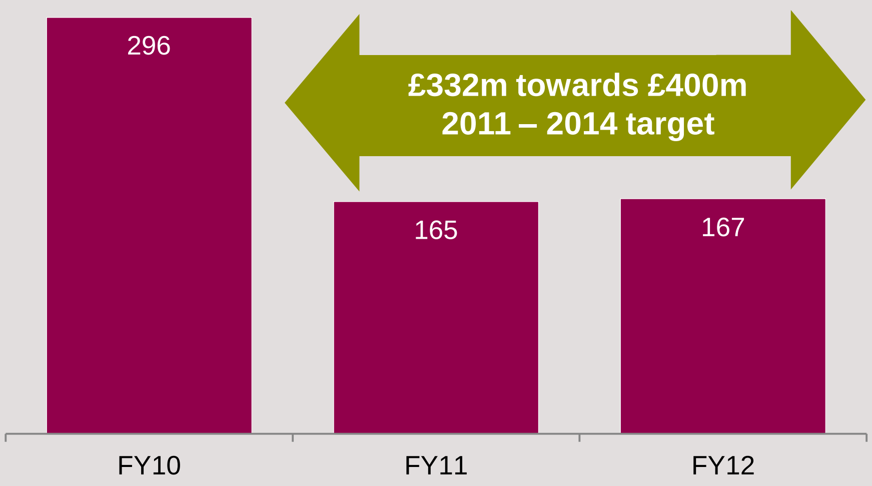
Mike Merrick

Phoenix Life operating model

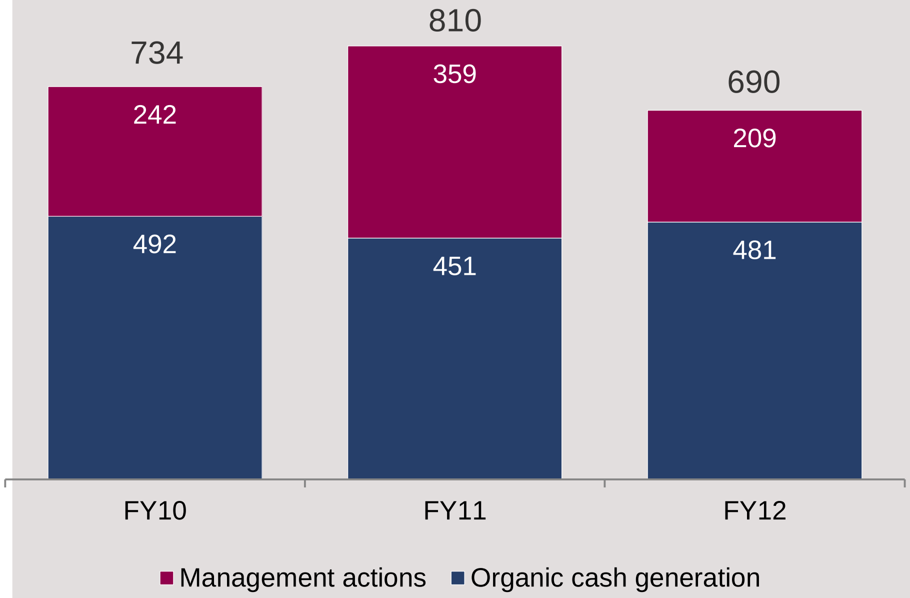


Management actions have generated significant benefits for shareholders

£628m of incremental MCEV 2010 - 2012



£810m of cash generated through management actions 2010 - 2012



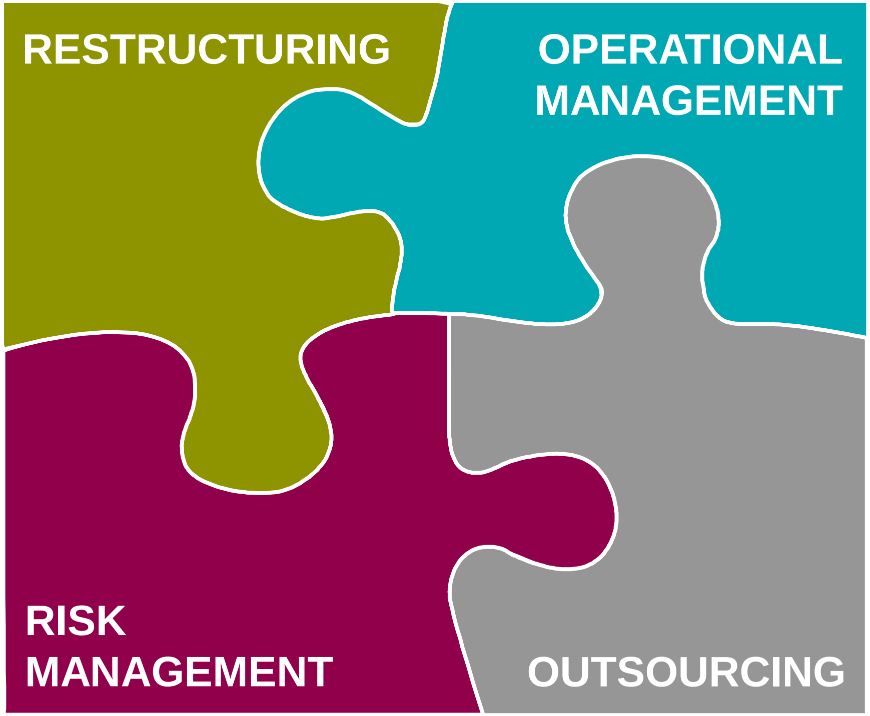
The Phoenix Way

Challenge

- Delivering increased value for shareholders and policyholders
- Cashflows for shareholders
- Higher payouts for customers

Operating environment

- Myriad of reporting bases and methodologies
- Book of business with varied legacy heritage
- Changing regulatory landscape
- Need for flexible cost base



Restructuring and Risk Management

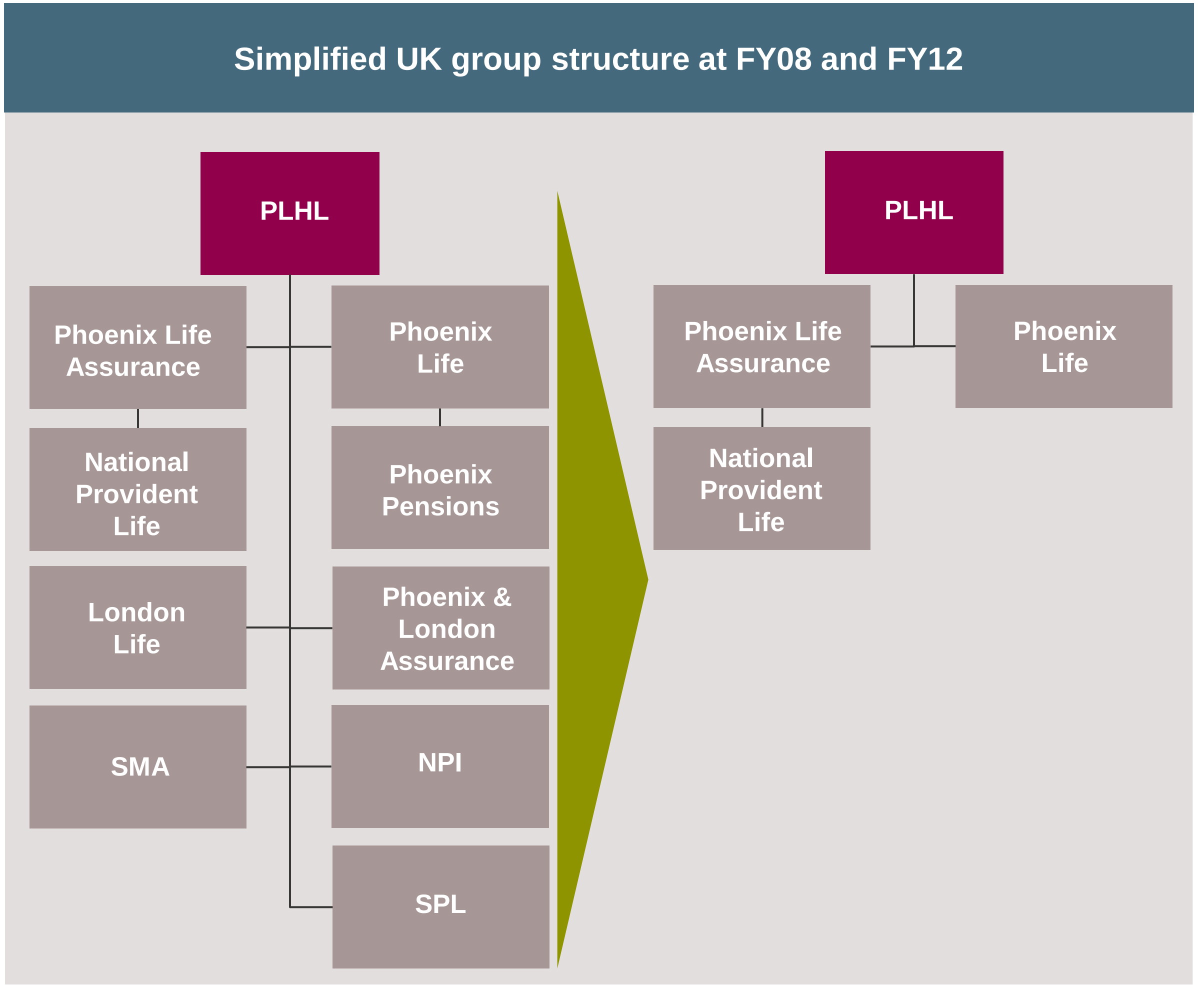
Pete Mayes – Chief Actuary, Phoenix Life

Restructuring and Risk Management

- ✓ Funds mergers
- ✓ Intra fund restructuring
- ✓ Asset liability matching
- ✓ Valuation and ICA harmonisation

The Phoenix Way

Funds mergers have delivered significant financial benefits and a simplified business model

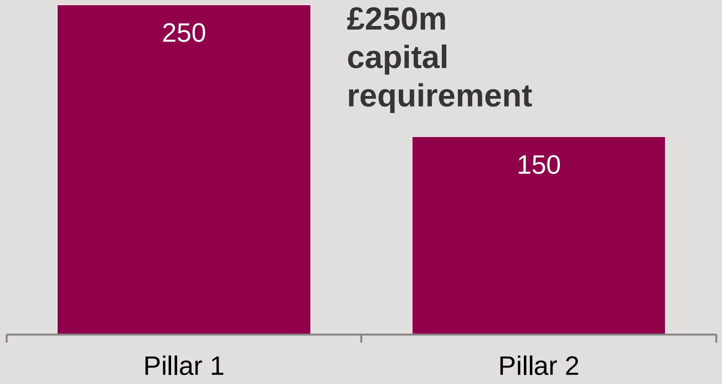


- ✓ **Capital synergies**
- ✓ **Risk diversification**
- ✓ **Removal of previous Scheme restrictions**
- ✓ **Tax benefits**

Capital requirements within a hypothetical funds merger

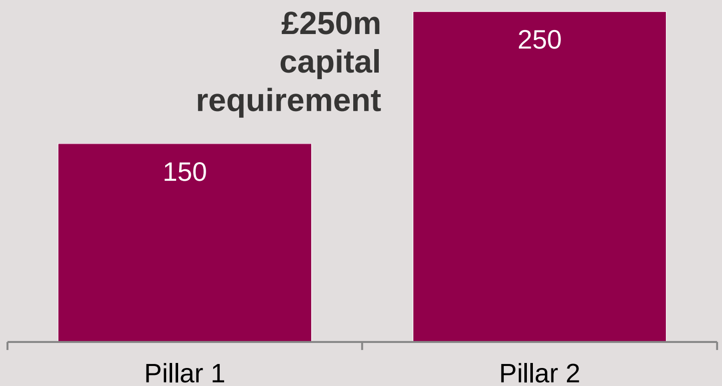
Company A capital requirements pre funds merger

£250m capital requirement



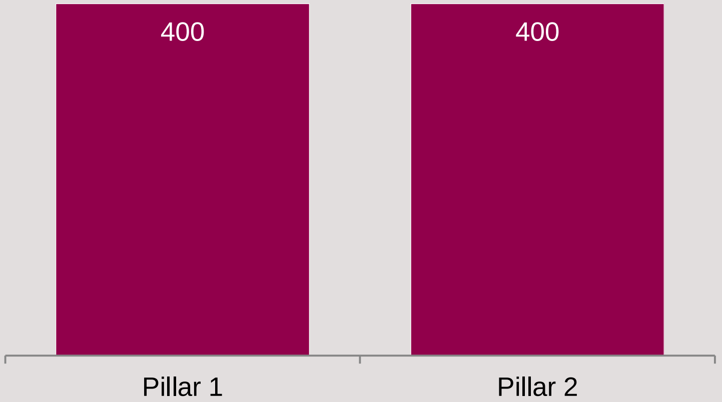
Company B capital requirements pre funds merger

£250m capital requirement



Combined company capital requirements reduced by £100m post funds merger

£400m capital requirement

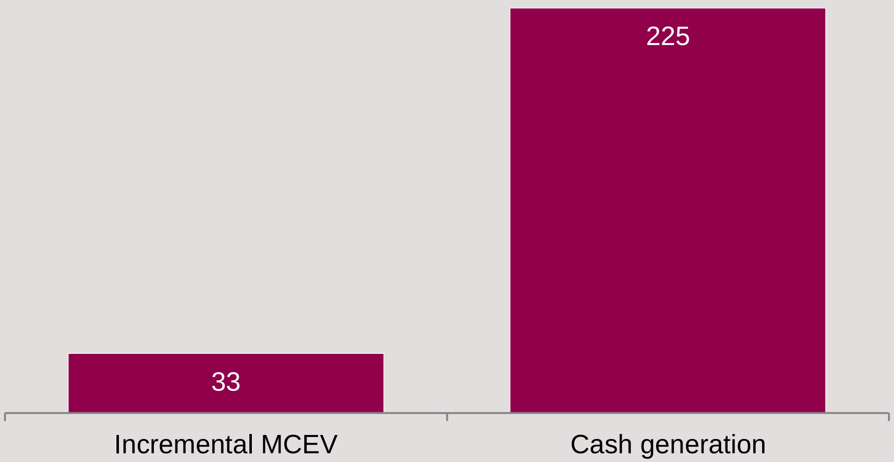


✓ £100m / 20% reduction in combined capital requirement

Notes: Based on hypothetical funds merger for illustrative purposes

Case study
Fund mergers

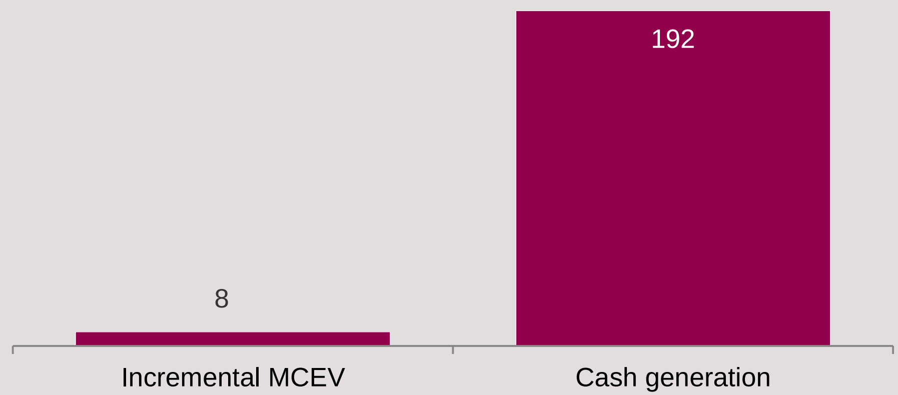
Fund merger of SMA & SPL into Phoenix Life Limited (£m)



Analysis of cash generation	
Pillar synergy	119
Risk diversification	65
Capital policy synergy	41
	225

✓ £332 million IGD benefit

Fund merger of London Life into Phoenix Life Assurance Limited (£m)

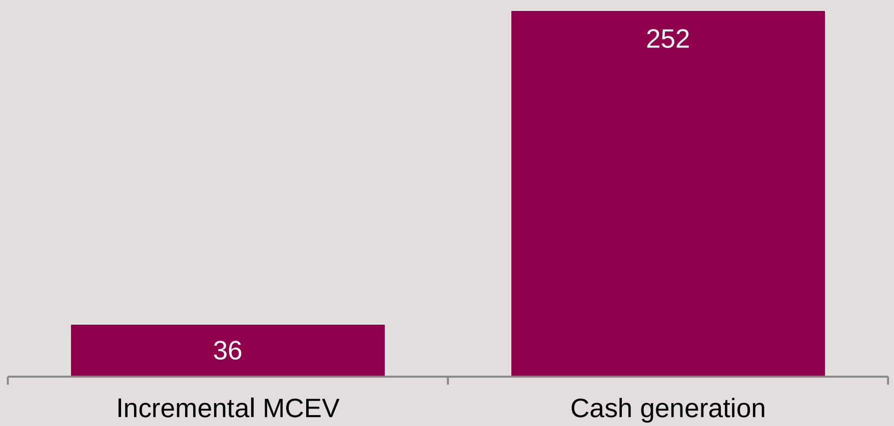


✓ Capital benefits largely driven by removal of previous Scheme restrictions

✓ £157 million IGD benefit

Case study
Annuity transfer

Annuity transfer financial benefits (£m)



- ✓ Exposure to longevity risk reduced by one third
- ✓ £0.2 billion IGD benefit expected on completion of Part VII in H2 2013

Operational management

Andy Moss – Finance Director, Phoenix Life

Operational management delivers synergies within the finance function

- ✓ People and site consolidation
- ✓ Systems and platforms
- ✓ Actuarial modelling
- ✓ Resolving legacy issues

The Phoenix Way

Case study
Consolidation of finance functions into Wythall

	Headcount reduction(1)		Cost reduction(1)	
	No of FTE	%	£m	%
Consolidation of Glasgow and Peterborough finance functions into Wythall	104	29%	£9m	33%

Note: (1) Represents reduction in FTEs and costs associated with undertaking BAU finance and actuarial activities

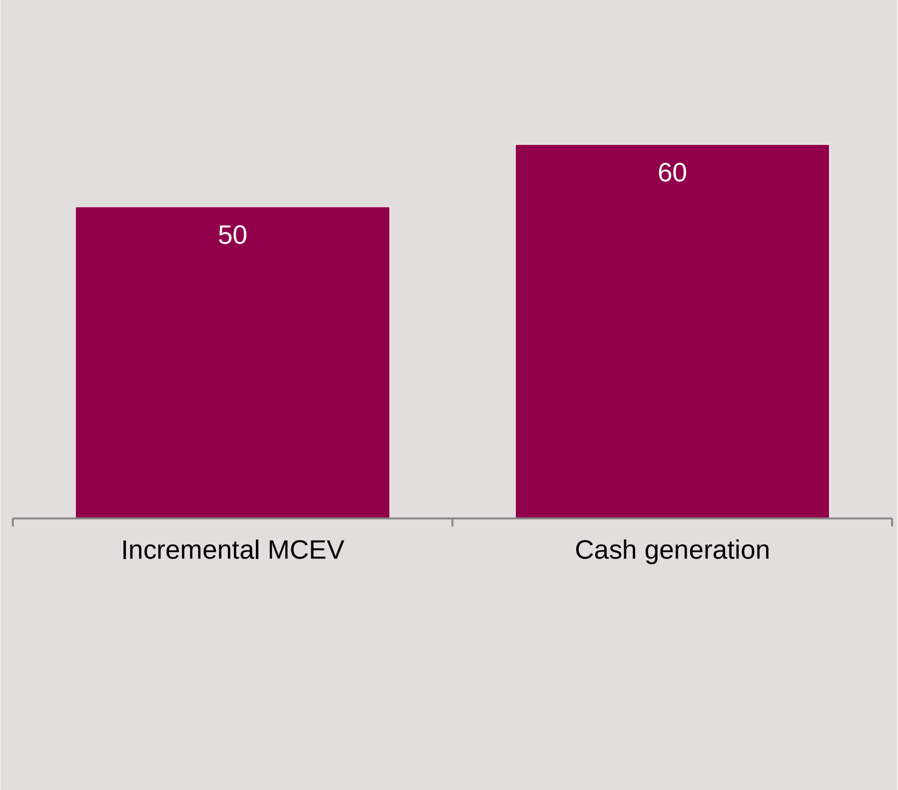
Case study
Actuarial modelling

Typical actuarial modelling in legacy books of business	
✗	Disparate collection of models on a variety of platforms
✗	Unwieldy, resource intensive and time consuming reporting processes
✗	Significant operational risk capital held against modelling risk
✗	No platform on which to consolidate future acquisitions

Phoenix actuarial modelling post Actuarial Systems Transformation	
✓	Single model for each product type
✓	Simplified, standardised actuarial modelling processes requiring less resource and improving efficiency
✓	Improved capital management facilitated by ability to implement consistent strategies across Group
✓	Modelling platform capable of consolidating future acquisitions with minimal additional cost

Case study
Actuarial modelling financial benefits

Significant benefits across key financial metrics in 2012 (£m)

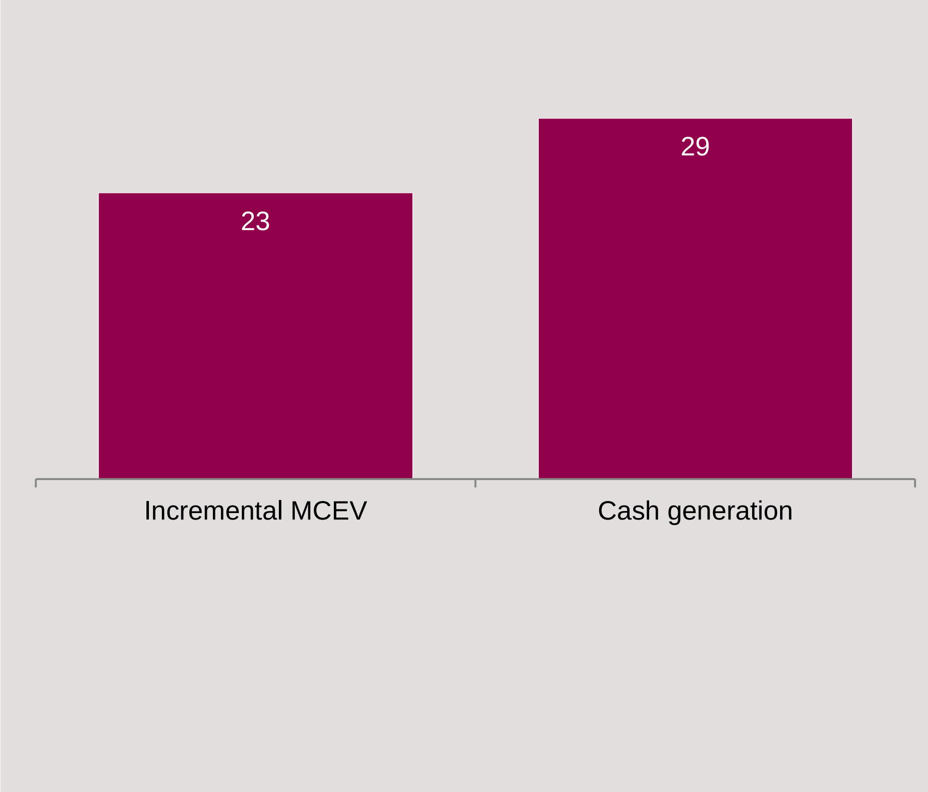


✓ Significant capital releases and reduced operational risk capital through simplified and improved modelling

Case study

Resolving legacy issues – harmonisation of suspended annuities policy

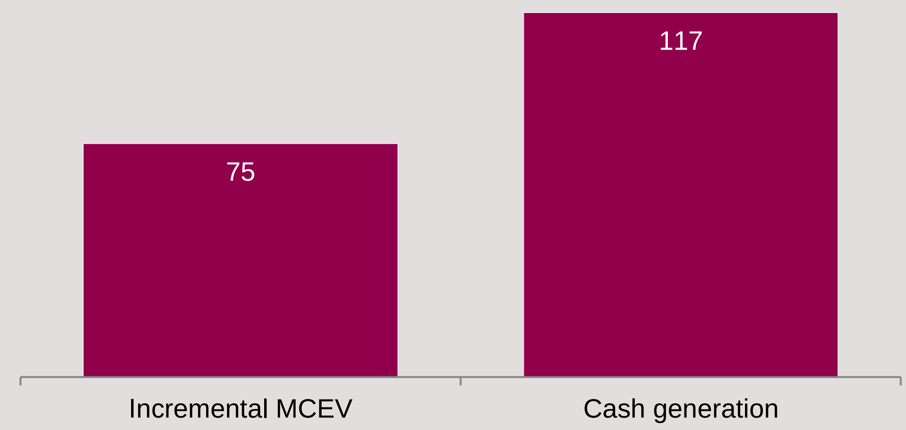
Significant benefits across key financial metrics in 2012 (£m)



- ✓ Tracing of Policyholders
- ✓ Harmonised policies
- ✓ Monitor reinstated policies

Case study
Resolving legacy issues – resolution of suspense accounts

Significant benefits across key financial metrics during 2008 and 2009 (£m)



- ✓ Suspense account balances cleared
- ✓ Overstated liabilities corrected and unnecessary provisions released
- ✓ Premium and claims accounting controls improved to eliminate weaknesses

Outsourcing

Tony Kassimiotis – MD of Operations

Operational efficiency achieved through outsourcing

- ✓ Operational risk management
- ✓ Technology and process simplification
- ✓ Site consolidation
- ✓ Outsourcing

The Phoenix Way

Well positioned to manage operational risk through efficient operating model

Life Companies

- Limited scale individually
- Multiple processes
- Legacy issues

Service Companies

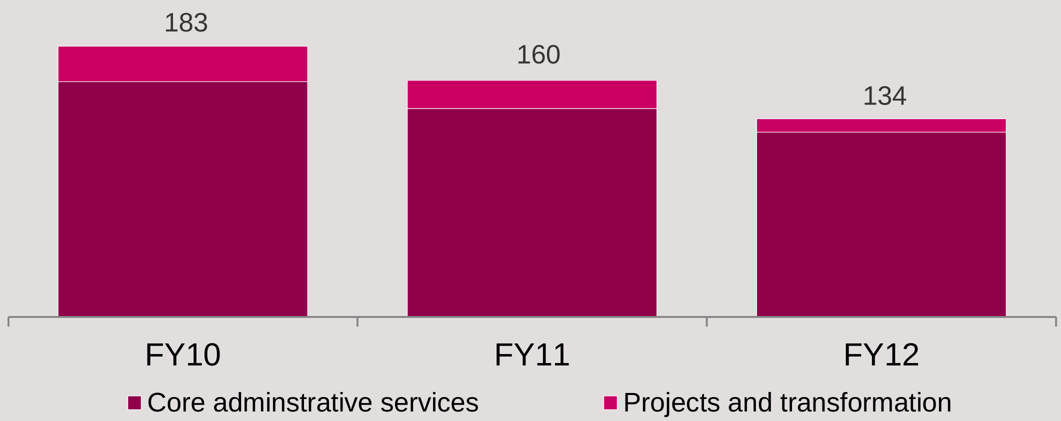
- Operational risk know-how
- Competitive advantage through scale
- Sourcing expertise
- Repeatable synergies
- Retained systems/ platform

Outsourcing Partners

- Industry leading contracts
- Transformation expertise
- Scalable & efficient platforms
- Enhanced customer services

Scalable and low cost efficient operating platform ensures variable cost base

Outsourcer costs[1] (£m)

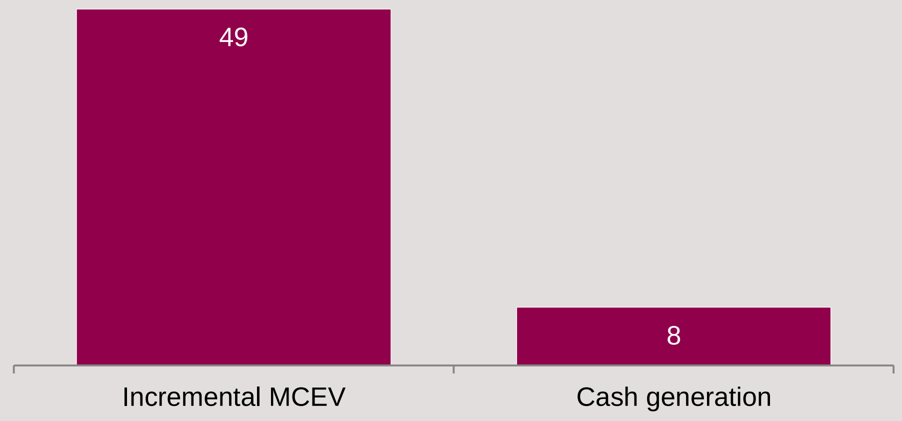


	FY10 - FY12
Policy run off	c.8% p.a.
Reduction in cost of core administration services	c.9% p.a.

Note: (1) Outsourcer costs per audited group accounts. Includes amounts paid in respect of projects undertaken by outsource partners to transform business

Case study
Migration of policies onto BaNCS administration system

Significant benefits across key financial metrics during 2010 & 2011 (£m)



✓ **Policies migrated onto single platform, scale benefit**

✓ **Cost per policy reduced, fixed costs converted to variable**

✓ **Data quality improved, legacy issues removed**

Summary

- ✓ Focused management teams with know-how
- ✓ Effective operational risk management, core to our business model
- ✓ Established outsource partnerships, pre-priced for the acquisition model
- ✓ Platforms and processes that deliver operational efficiencies

The Phoenix Way

Repeatable and scalable

Management actions wrap up

Mike Merrick

Proven ability to add value and accelerate cash through management actions

- Restructuring
- Risk management
- Operational management
- Outsourcing

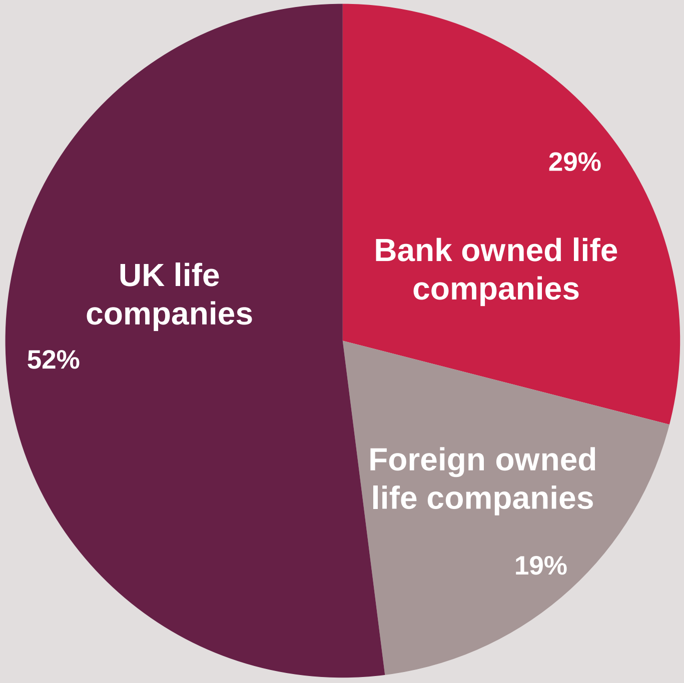
- Cash acceleration
- Incremental MCEV
- Improved group solvency
- Increased IFRS operating profits

Opportunities for growth

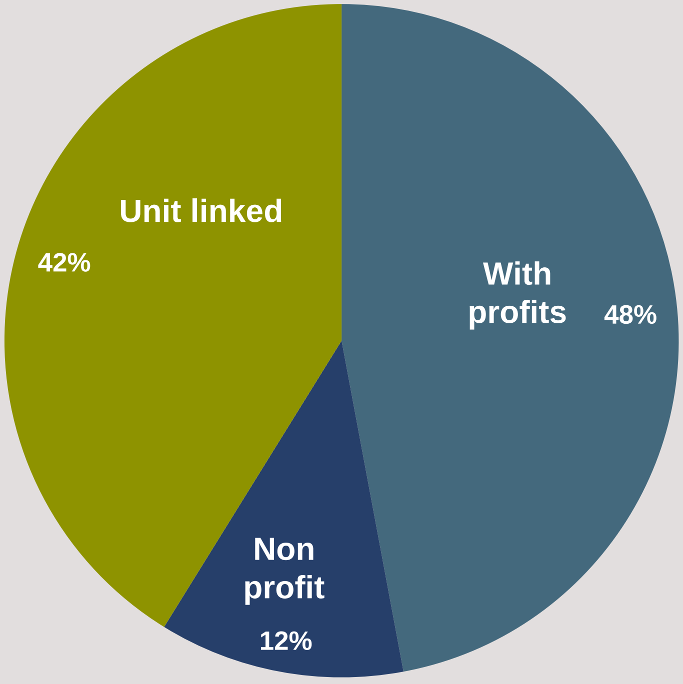
Fiona Clutterbuck

Potential market opportunities totalling £200 billion are held by various types of owner across a range of product types

Potential market opportunities by owner(1)



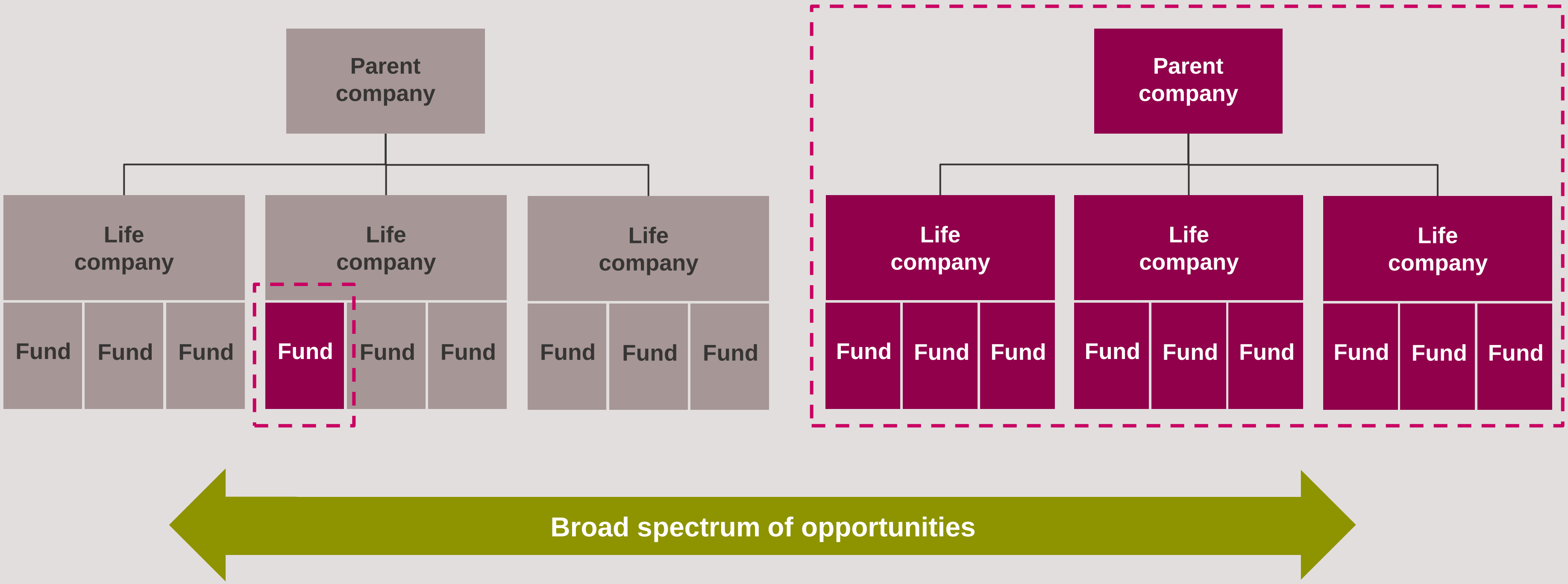
Potential market opportunities by product type(1)



Note: (1) Analysis based on FY11 FSA returns. Excludes Phoenix Group assets

Broad spectrum of potential acquisition sizes and structures

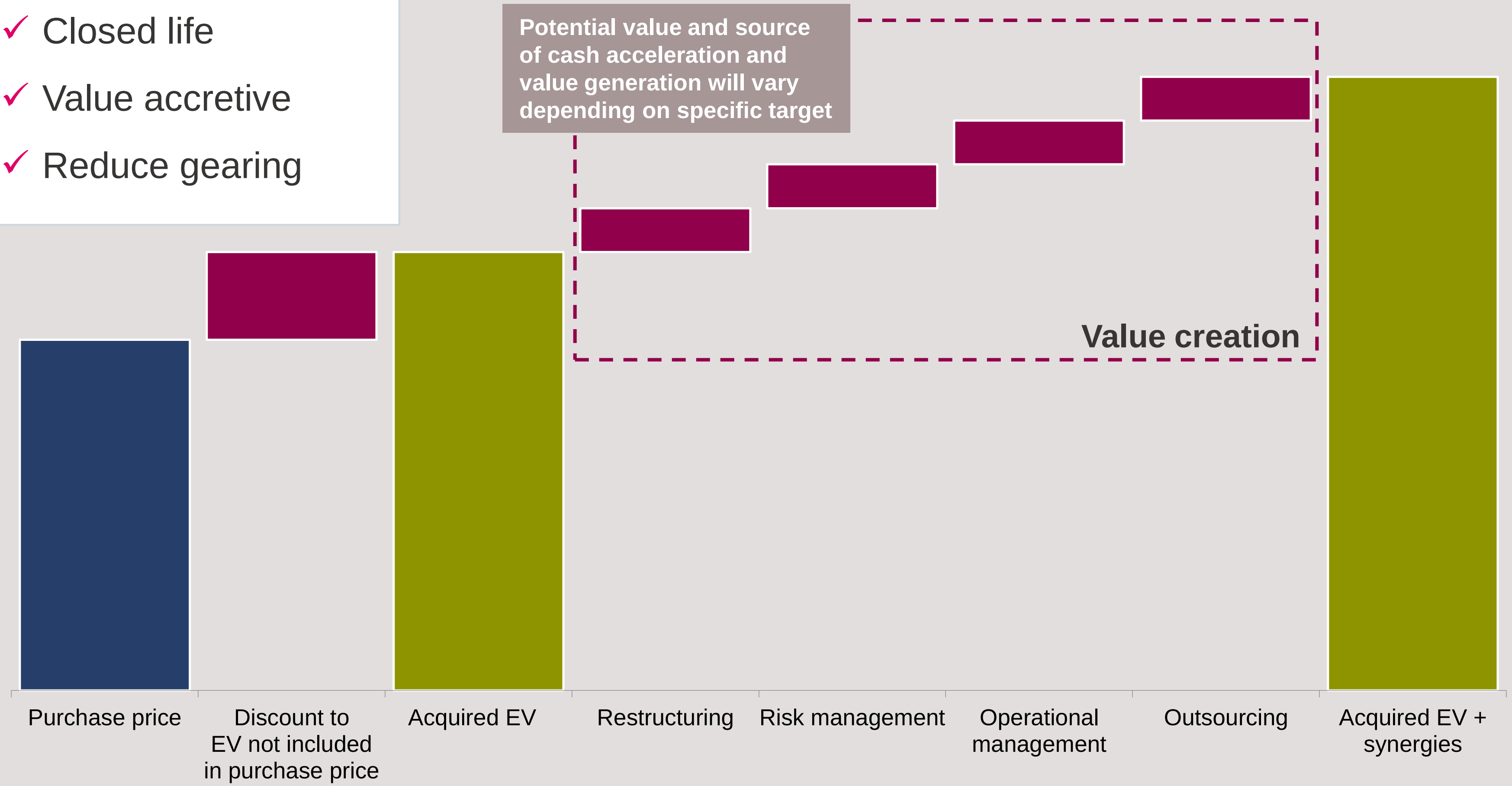
Potential acquisition of individual life fund or book of business within life fund	Potential acquisition of group comprising several life companies



Potential to deliver significant value generation and cash acceleration from acquisitions

Sources of cash acceleration and value generation(1)

- ✓ Closed life
- ✓ Value accretive
- ✓ Reduce gearing



Notes: (1) Not to scale

Wrap up and Q&A

Clive Bannister

Financial targets for 2013 and beyond

Cash generation	• 2011-2016 cumulative target of £3.5bn • 2013 target of £650m to £750m
MCEV	• Cumulative target of £400m incremental embedded value from management actions over 2011 to 2014
Gearing[1]	• Long-term target to reduce gearing to 40% by end 2016

Note: (1) Gross shareholder debt as a percentage of Gross MCEV

Q&A

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- Statements containing the words: ‘believes’, ‘intends’, ‘expects’, ‘plans’, ‘seeks’, ‘continues’, ‘targets’ and ‘anticipates’ or other words of similar meaning are forward-looking. Forward-looking statements 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 we have 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, 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 FSA’s planned ‘ICA+’ regime and ultimate transition to the European Union's ‘Solvency II’ on the Group’s capital maintenance requirements; impact of inflation and deflation; 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, including joint ventures; 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 within this presentation. The Group undertakes no obligation to update any of the forward-looking statements contained within this presentation or any other forward-looking statements it may make
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- Any references to IGD Group, IGD sensitivities, or IGD relate to the relevant calculation for Phoenix Life Holdings Limited, the ultimate EEA Insurance parent undertaking
- Holding companies refers to Phoenix Group Holdings, Phoenix Life Holdings Limited, Pearl Group Holdings (No.2) Limited, Impala Holdings Limited, Pearl Group Holdings (No.1) Limited, PGH(TC1) Limited, PGH(TC2) Limited, PGH(MC1) Limited, PGH(MC2) Limited, PGH(LCA) Limited, PGH(LCB) Limited, PGH(LC1) Limited, PGH(LC2) Limited and Pearl Life Holdings Limited