Focus on Phoenix Life

24th June 2011

PHOENIX GROUP

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Agenda for today

2.00	Introduction	**Jonathan Yates** Group Finance Director
2.05	Overview of Phoenix Life	**Mike Merrick** Chief Executive Phoenix Life
2.40	Financials	**Andy Moss** Phoenix Life Finance Director
3:00	Business Lines	**Peter Mayes** Chief Actuary
3:20	Operational Management & Outsourcing	**Tony Kassimiotis** Managing Director Operations
3:40	Wrap up and Q & A	**Mike Merrick**
4.00	HMS Belfast Tour & Drinks	

Introduction

Jonathan Yates

Overview of Phoenix Life

Mike Merrick

Phoenix Life – substantial part of overall Group by any metric

Phoenix Life

Facts

- 7 life companies
- 13 with profit funds
- 6 non profit funds
- Over 6m policyholders
- 580 full time employees

Figures (FY 10)

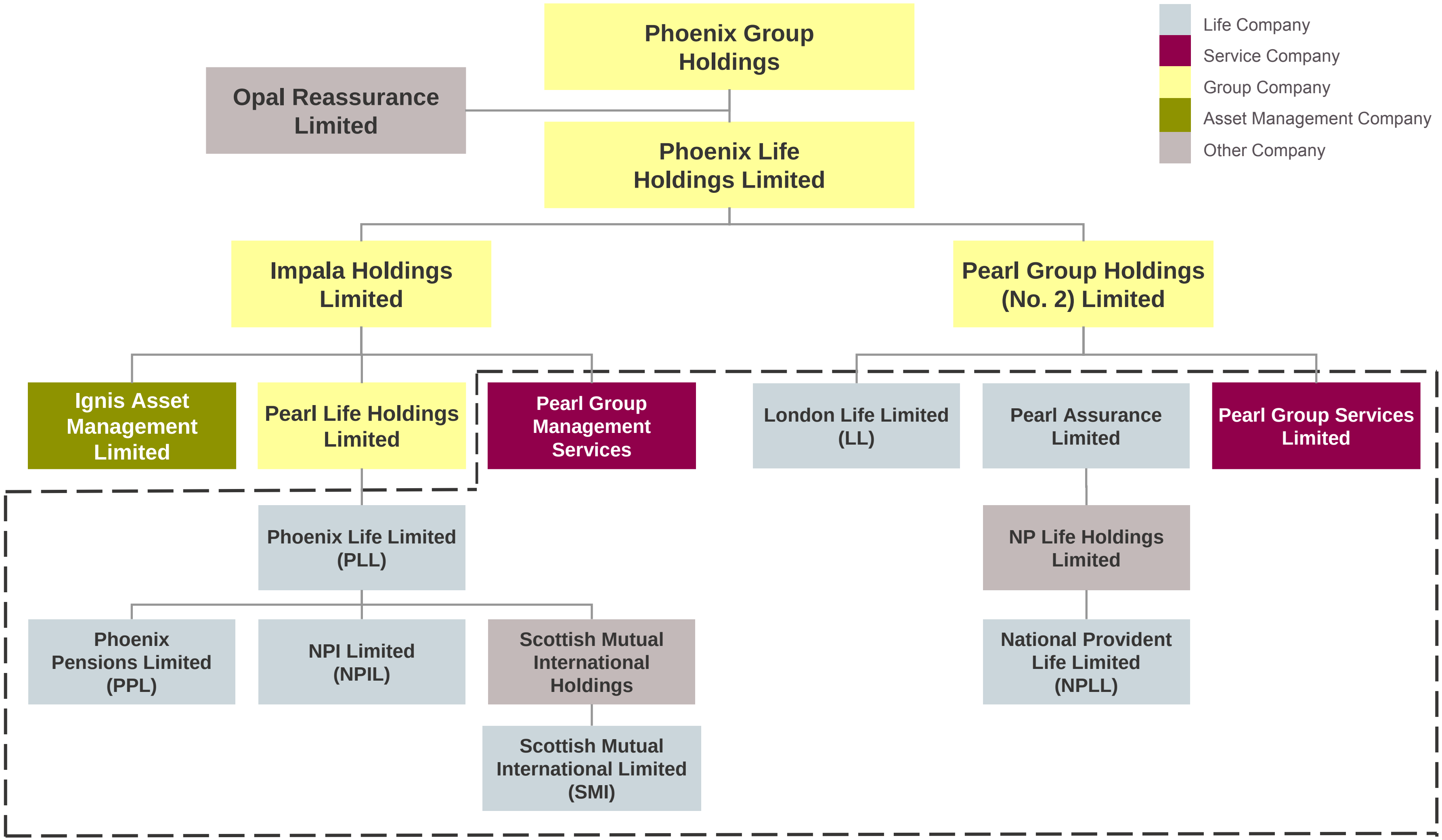
- £57bn assets (Group: £67.5bn) [(1)]
- £388m IFRS operating profit (Group £373m)
- £3,592m MCEV (Group: £2,104m)
- £708m operating cash generation (Group: £734m)

Services

- Outsourced: customer administration, IT, investment administration, payroll, accounts payable
- In house: finance, actuarial, customer and outsourcer oversight, HR, risk, internal audit

(1) £57bn Phoenix Life assets includes assets managed by fund managers external to the Group and is net of collateral liabilities. £67.5bn Group assets under management represents Ignis only

What is Phoenix Life?



Note: The above is an extract from the Phoenix Group structure chart

Value of assets by silo

	Impala		Pearl		TOTAL	
	FY 10 £m	%	FY 10 £m	%	FY 10 £m	%
Shareholder	1,611	4%	1,414	9%	3,025	5%
Non profit						
Annuities	5,041	12%	935	6%	5,976	11%
Unit linked	11,796	28%	336	2%	12,133	21%
Protection & other non profit	763	2%	75	1%	837	1%
With profit						
Standalone	16,021	38%	7,321	49%	23,342	41%
Supported	6,804	16%	4,856	33%	11,660	21%
TOTAL	42,036		14,937		56,973	

Note: There is an additional £14bn of collateral held against reassurance and stock lending activities across both silos

Who is Phoenix Life?

Chief Executive Phoenix Life
Mike Merrick

- **Chief Investment Officer** — Phil Clements
- **MD Operations** — Tony Kassimiotis
- **Chief Actuary** — Pete Mayes
- **Head of HR** — Kenny Graves
- **Customer Director** — Susan McInnes
- **Life Finance Director** — Andy Moss
- **Director of With Profit Management** — Kevin Arnott

183 years of relevant experience across 20 different organisations – highly experienced management team focused on Phoenix Life

How we measure ourselves – customers and people

	Benefit	Metric
Customers		
Maximise estate distribution and increase policy payouts for customers	Increased policyholder and shareholder value	• £898m of estate being shared amongst policyholders
Reduce complaint volumes Reduce time to resolve legacy issues	Improved customer service and improved efficiency	• 1.16 complaints per 1000 policies • Reduced elapsed time to resolve legacy issues by over 10% year on year
People		
Maintain expertise – retain key staff and maintain turnover below industry averages Target above sector average engagement	Enhanced contribution from all employees and achievement of group objectives	• Key staff turnover 3% • Overall turnover 7% • Engagement level 74% compared to financial services benchmark of 69%

How we manage risk

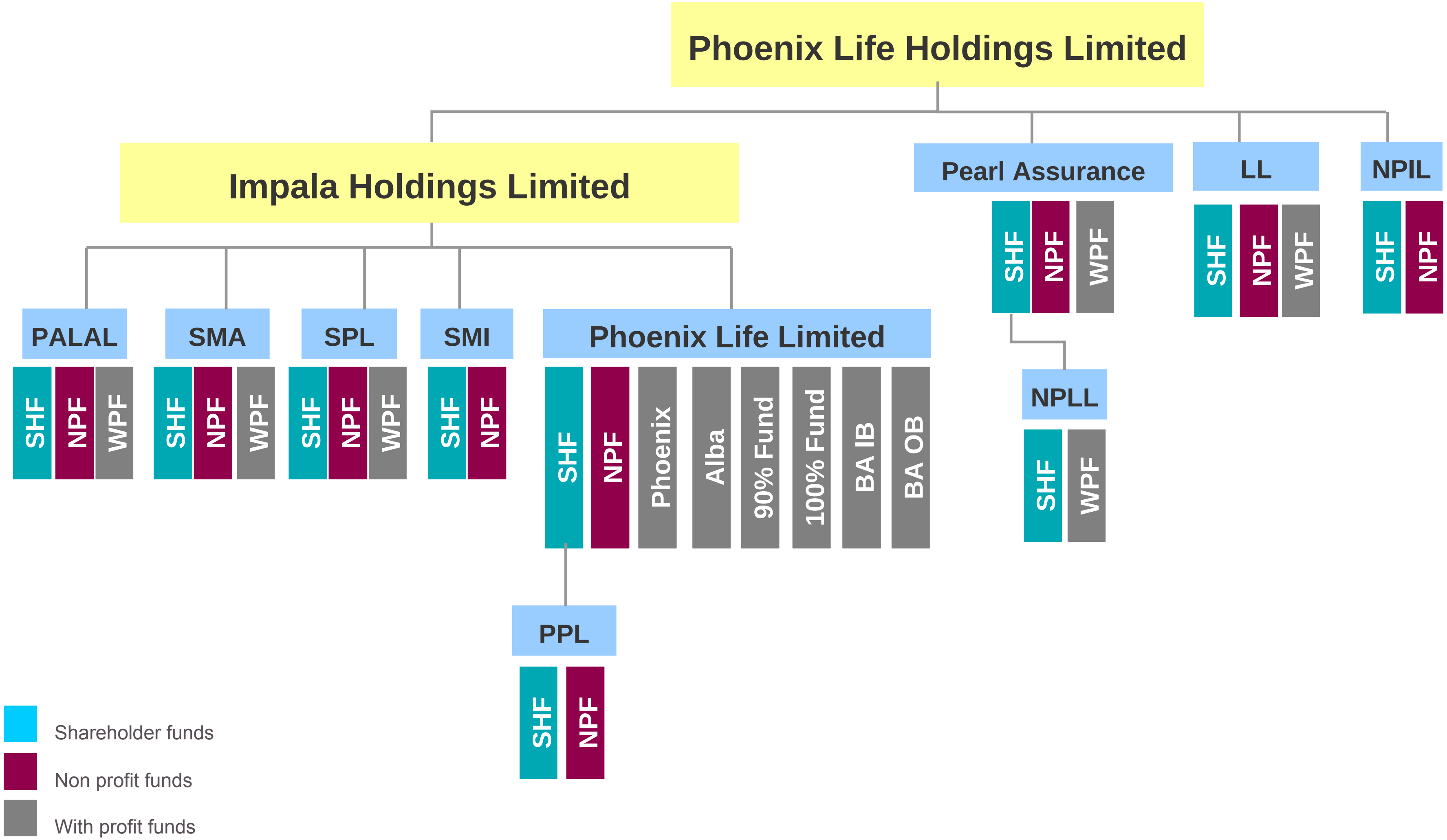
Risk	How we manage it
Economic	• Monitor impact of economic conditions • Regular re-balancing of asset/liability positions • Take actions as necessary to protect cash and profits
Insurance	• Monitor experience and industry data as indicators of deviations from assumptions • Identify actions as necessary to protect cash and profits • Use of pricing of new annuities (£800m p.a.) and new longevity risk as the primary control mechanism
Operational	• Complete Control and Risk Self Assessment • Review product performance and service delivery on a regular basis using a defined process • Ensure that outsourcer risk transfer mechanisms work • Identify key actions to reduce use of capital for this unrewarded risk
Regulatory	• Identify and address regulatory risks directly and through industry lobbying – Ombudsman monitoring – FSA consultation papers such as CP11/05 – Solvency II

Solvency II overview

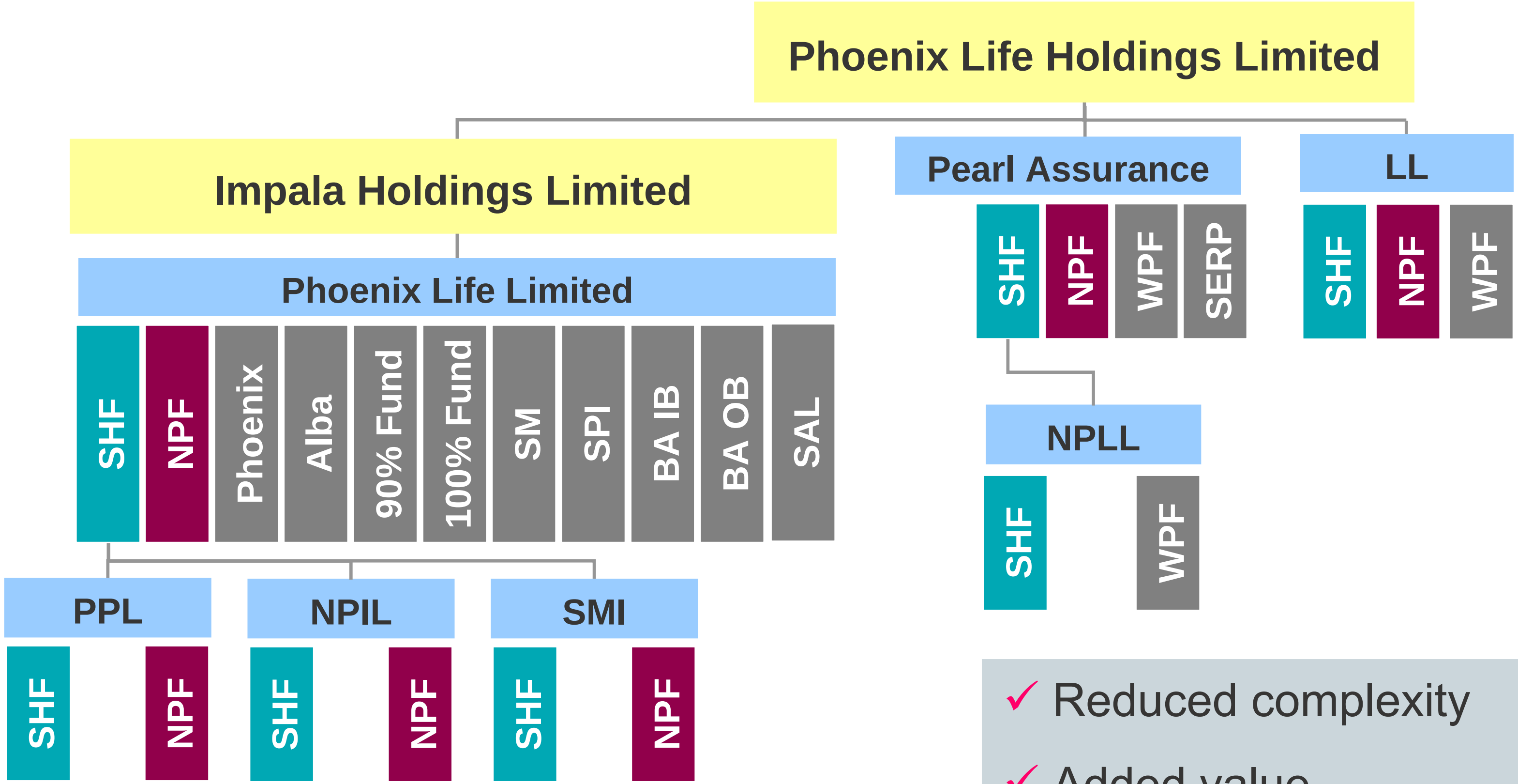
- Group is working on basis of an effective date of January 2013. Programme is on track to deliver to this timescale

FSA's Internal Model Approval Process	QIS5 Exercise
• Applying for a partial internal model • Phased approach linked to Actuarial Systems Transformation ('AST') • Ultimate aim is for full internal model • Transitional arrangements could provide flexibility to fit around AST	• Useful part of technical preparations for Solvency II implementation • Phoenix's current capital policies cover QIS5 requirements however many elements still subject to uncertainty

2008 Phoenix Life Funds Structure (post Resolution acquisition): 10 life companies



Current Phoenix Life Funds Structure: 7 life companies



Shareholder funds

Non profit funds

With profit funds

- ✓ Reduced complexity
- ✓ Added value
- ✓ Cash flow released
- ✓ More to do

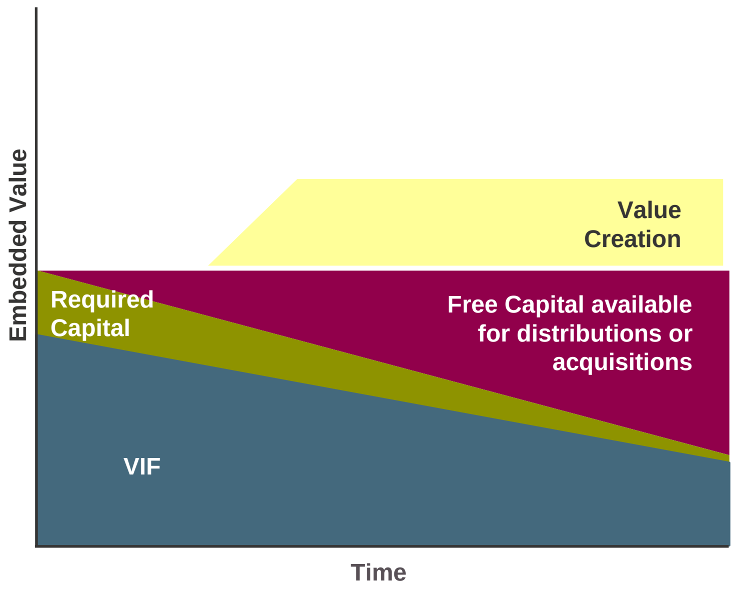
Closed Life Fund fundamentals

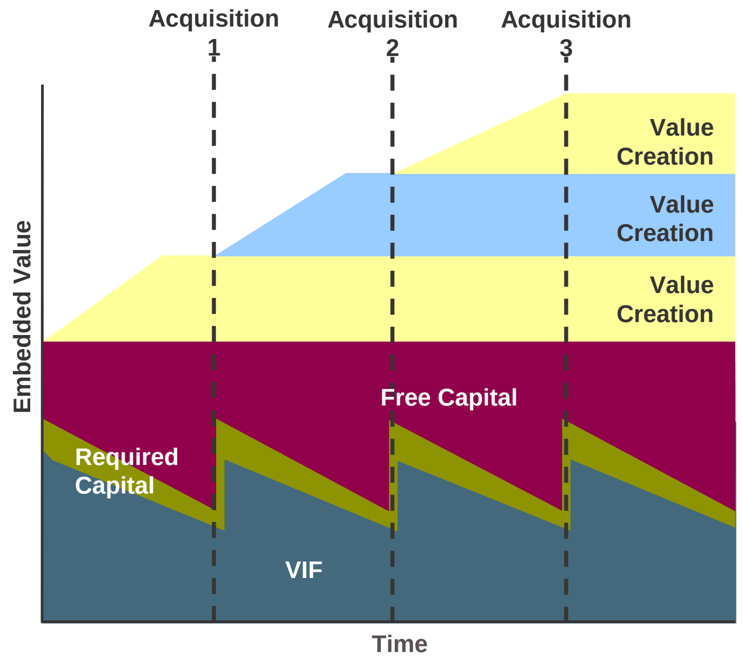
Basic Business Model

- Value in Force ('VIF') turns into cash over time
- Capital is released as the risk profile reduces
- This run off process is continuous and inevitable unless risks crystallise
- Management can increase the value of the VIF and/ or accelerate the release of capital

Enhanced Business Model

- VIF and cashflows replenished through future acquisitions
- Value creation in potential acquisitions via discount to EV together with tax, capital and expense synergies
- Potential to add further value by deploying the Phoenix Way





Deploying the Phoenix Way

Challenge

- Delivering increased value for our shareholders and policyholders
  - Adding value
  - Turning value into cash
- Cashflows for shareholders
- Higher payouts for customers

Phoenix Life

Operating environment

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

Phoenix Way

Operational Management	Outsourcing
Restructuring	Risk management

- Methodology for delivering this challenge within operating environment
- Simplifying and clearly setting out how we manage closed funds

Demonstration of the Phoenix Way

Operational Management

- Address historic legacy issues such as tax challenges
- Standardise approaches e.g. dealing with and providing for outstanding claims
- Manage costs

Outsourcing

- Simplify and consolidate arrangements
- Transform model
- Improve customer experience

Restructuring

- Life company and fund restructurings
- Liability management e.g. removal of guaranteed annuity options and transfers of annuities
- Asset restructuring

Risk management

- Take risk in the right places e.g 2010 hedge fund exposures
- Focus on standardised controls to reduce operational risk

Phoenix Way delivery – 2011 focus

Operational management

- Continued development of AST
- Permanent solutions for legacy issues
- Establishing the standard with profit "model fund"
- Cost management
- Running and reporting the business

Outsourcing

- Improving customer experience
- Further policy migrations to transformed platform at our outsourcers
- Further improvements to incident management and complaint handling
- Developing relationship with Ignis

Restructuring

- Restructuring of corporate bond portfolio
- Further fund mergers
- Develop corporate structure fit for purpose under Solvency II

Risk management

- Managing market risk
- Continuous improvements to asset liability matching
- Delivery of Solvency II project plan

Improve customer outcomes and deliver shareholder targets

Financials

Andy Moss

How we measure ourselves – financial metrics

	Metric
Cash	Cash generation target
Embedded value	Target specific management actions to enhance
Capital strength	Compliance with regulatory requirements and capital buffers
Operating profits	IFRS target
Cost management	Service company cost target

On track for delivery of key financial targets for 2011

Clear view of cash generation

Cash generation	Key sensitivities	Distribution of surplus cash
WP shareholder bonuses NP fund surplus Shareholder fund returns Capital run off and management	✓ Economic conditions ✓ Experience on key assumptions ✓ Tax	• Regulatory capital • Capital buffer to withstand range of adverse events • Excess capital available for distribution

Significant embedded value within Phoenix Life

	FY 10 £m		
	Net Worth	VIF	Total
Life companies (subsidiaries consolidated)			
Phoenix Life Limited	760	1,437	2,197
Pearl Assurance Limited	739	280	1,019
London Life Limited	145	151	296
	1,644	1,868	3,512 (1)
Management services	80	-	80
	1,724	1,868	3,592

(1) The difference between the £3,512m value of the life companies and the £4,517m value of covered business MCEV comprises the value of Opal and future group tax relief

Note: All values are shown net of loans to the Group

Strong capital positions: significant free surplus across Phoenix Life

	FY 10 £m						
	Phoenix Life Limited	PALAL	Pearl	London Life	Sub-Total	IFRS net assets of management services	Total
Pillar I – regulatory excess capital	514	350	747	246	1,857	-	1,857
Free surplus	168	133	369	-	670	80	750

- Free surplus is excess available for distribution taking into account individual capital assessment, capital policy and any other restrictions
- PALAL free surplus transferred to Phoenix Life Limited effective from 1 January 2011 as part of Part VII transfer
- London Life free surplus currently restricted and to be addressed as part of funds merger programme

Underlying IFRS operating profits are relatively stable

Fund type	FY 10 £m	FY 09 £m	Operating profit drivers
With Profit – cost of bonus	55	49	Shareholders share of cost of bonus transfers from with profit funds
With Profit – supported funds	(7)	20	New business contribution Expected margin emergence Experience (insurance) variances Data and model changes Assumption changes
Unit linked	72	68	
Annuities	98	188	
Protection and other non profit	90	66	
Shareholders fund	80	78	Long term return on shareholders fund assets
Total Phoenix Life IFRS operating profit	**388**	**469**	

Controlled cost base, reflecting significant variable element and project completion

Phoenix Life Management Expenses FY 10			
BAU	Outsourcer	£144m	• Passed on to life companies as guaranteed per policy costs • Costs managed in service companies. Better management gives profit benefits in these companies • Outsourcer costs fully variable
	Retained	£84m	• Retained costs semi variable • Significant track record of reducing retained costs, e.g. via – synergy as acquisition integrated – ongoing operational improvement as business is simplified
Non recurring	Projects	£70m	• Charged to life companies in majority of cases • 2010 and 2011 will be peak of costs, driven by outsourcer transformation, Solvency II and AST
Total		**£298m**	

Investment management expenses aligned to performance

Phoenix Life investment management expenses paid to Ignis FY 10		
Charged to with profit funds	£89m	• Benchmarked to other commercial providers • £20m relates to performance fees – Aligned interests between Ignis and Life business – Variable
Charged to non profit funds	£24m	
Total	**£113m**	

Operational Management	Outsourcing
Restructuring	Risk Management

Case study: Resolving legacy issues

Background	• 1 of the acquired businesses for which administration had previously been outsourced • Weaknesses in controls over completion of premiums and claims accounting were identified • Significant suspense account balances totalled £2.3bn • Project set up in late 2007 to address these issues
Actions	• First objective to clear the suspense account balances to an acceptable level • Second objective to improve controls to ensure that the weaknesses were eliminated • Thorough and detailed activity to clear the issues
Result	• Core project ran through 2008 and 2009 • £2.2bn of the £2.3bn backlog has been cleared • No significant customer detriment was identified • The activity led to a release of **£117m net capital** to the life company funds, with an associated **increase to EV of £75m**. Due to correcting overstated liabilities and a release of provisions no longer required • Controls now operate to maintain suspense within agreed levels

Case study: Funds merger

Background	• The life insurance businesses of Abbey National (now part of Santander) were acquired in 2007 • Part of the acquired business was transferred into PLL via a funds merger, effective from 1 Jan 2009
Actions	• Legal – transfer of assets under Part VII of Financial Services and Markets Act 2000 – sanctioned by High Court • Regulatory – discussions with regulator to ensure “non objection” from FSA • Independent Expert – reports on impact on policyholder interests (benefit expectations and security) • Tax – clearances sought from HMRC • Policyholder – communication programme to explain Scheme and provide opportunity to object
Result	• **MCEV benefit of £33m** recognised at 2008 year end • **Capital synergies** benefit of **£225m** as at effective date • **IFRS full year** 2009 results included benefit of **£90m** profit before tax

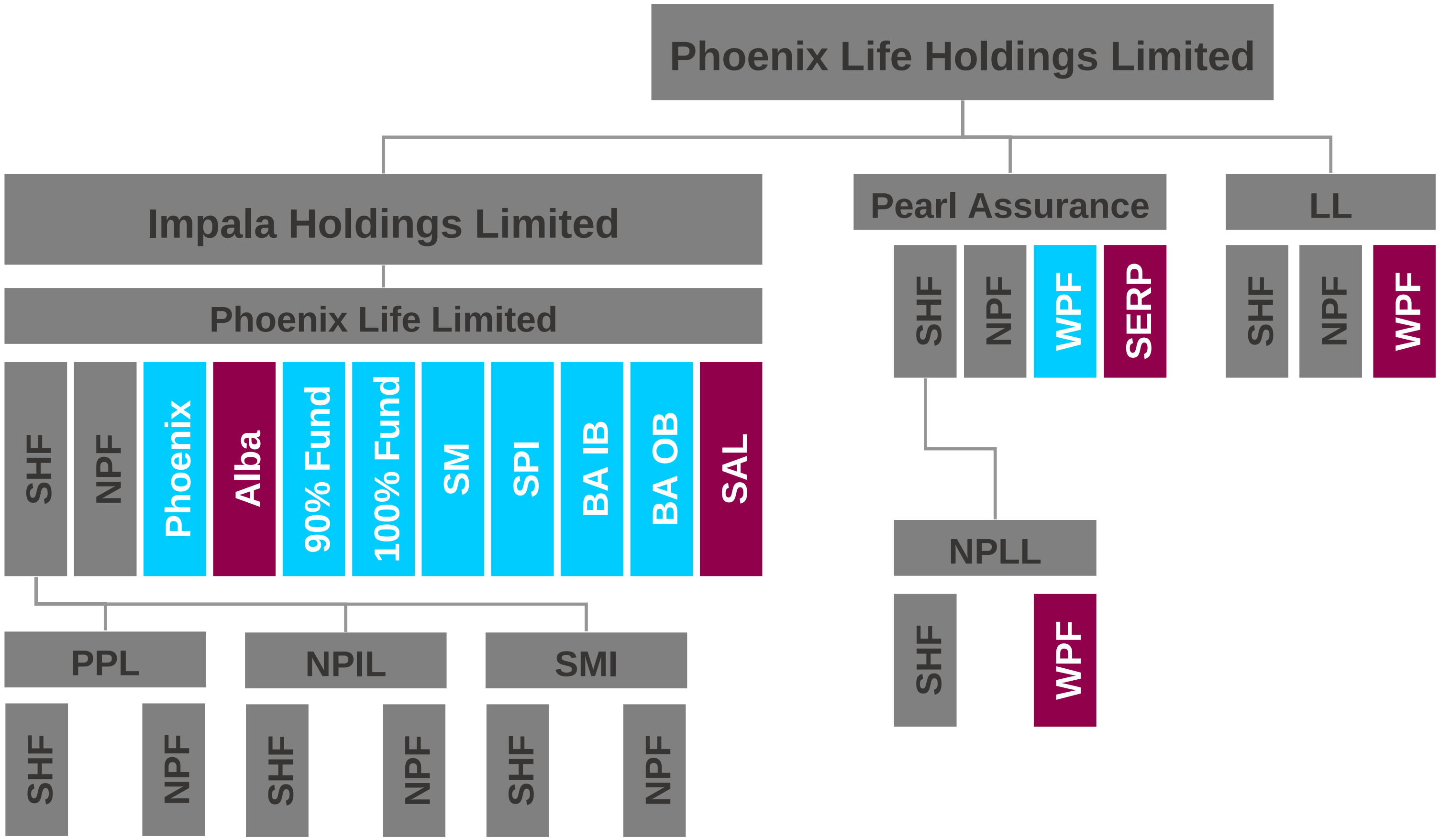
In summary

- ✓ On track to meet 2011 financial targets
- ✓ Resilient and reliable cash flows
- ✓ Significant embedded value in the business
- ✓ Strong capital position
- ✓ Controlled cost base – reflecting significant variable element and reducing projects

Business Lines
Peter Mayes

- With profit
- Annuities
- Unit linked
- Protection

With profit funds: standalone vs. supported



Standalone with profit funds

Supported with profit funds

With profit (standalone) are a core profit driver

Dimensions	Base Case	Returns improved by	Longer term objectives
£23.3bn AUM £17.2bn asset shares £612m VIF	Shareholders typically get 10% share of policyholder bonuses	**Accelerating estate distribution** • Earlier payment to policyholders accelerates cashflow for shareholders • Improved risk management • Release prudence in reserves **Optimising investment strategy** • Hypothecation • Improved investment returns	• Harmonisation of practices • Estate distribution • Reducing unrewarded risks • Restructuring

With profit (supported) still creates shareholder value

Dimensions	Base Case	Returns improved by	Longer term objectives
£11.7bn AUM **£7.3bn asset shares** **£34m VIF**	**Normally no policyholder bonuses, but shareholder value is created through reducing shareholder support**	**Optimising investment strategy** • Hypothecation • Hedging / removing risks **Improvements in the risk management of the fund** • Release capital by removing risks from the fund e.g. writing future annuity vestings in 0:100 funds	• Harmonisation • Reducing unrewarded risks • Restructuring

Annuities – attractive and growing

Dimensions	Base Case	Returns improved by	Longer term objectives
£5.9bn AuM [1] £800m pa premium income c 8% profit margin (life co) £415m VIF	Strong cash generation from in force annuities in non profit funds Growth of value from internal vestings	• Strong and steady stream of internal vestings at very low cost – competitive annuity rates can be offered whilst generating high margins • Use of illiquidity of annuity liabilities to invest in illiquid assets which boost returns or generate cash flow • Transferring remaining annuities from the with profit to non profit funds thereby increasing value	• Improve retirement proposition • Improve pricing bases • Further develop liability management

(1) Excludes £3.5bn of Opal assets and £2.2bn assets in the with profit fund

Unit linked and Protection – low risk cash generation

Dimensions	Base Case	Returns improved by	Longer term objectives
Unit Linked: **£12.1bn AUM** **£447m VIF**	**Profitable, valuable and cash generative business with relatively low capital requirements**	• Cost efficiency • Customer retention • Investment performance	• Increase sale of affinity and own products to customer base
Protection and other: **£0.8bn AUM** **£360m VIF**			

In addition, the businesses are complementary

- With profit (stand-alone)
- With profit (supported)
- Annuities
- Unit linked
- Protection

Indirect benefits

- Profitable vesting annuities
- Ignis AuM
- Tax Synergies
- Servco cost efficiency
- Fund Merger
  Diversification Benefits

Operational Management	Outsourcing
Restructuring	Risk Management

Case study: Restructuring of corporate loan portfolio

Background	• Opal Re held a leveraged portfolio of sub-investment grade corporate loans of typically five year term • Loan portfolio £1.2bn with £0.8bn of funding from lender • We did not recognise a liquidity premium due to not having full control in adverse conditions, e.g. lender could demand collateral contributions or otherwise force a sale • Pillar 2 ICA stress reflected mark-to-market asset volatility and the portfolio leverage
Actions	• Bought out lender funding to gain full control of portfolio • Removed excess liquidity in structure to reduce exposure to below £1bn • Recognised liquidity premium, reflecting ability to hold assets to maturity • ICA stress now based on default risk rather than mark-to-market volatility
Result	• Simplified structure • Phoenix Group now has control over the portfolio • **MCEV benefit** of **£139m** • **Pillar 2 Capital** benefit of **£136m** • Further opportunities remain to allocate these assets more efficiently across the Phoenix Group

Operational Management & Outsourcing

Tony Kassimiotis

- Operational model
- Outsourcer transformation
- Low cost and efficiency
- Actuarial transformation

A well positioned operational model

Life companies

Company 1

Company 2

Company 3

- Multiple companies and processes
- Limited scale in their own right
- Price certainty
- Improved services to policyholders
- Operational risk transfer

"One" Service Company

- Competitive advantage through scale
- Synergy for future acquisitions
- Cost certainty
- Operational risk transfer

Outsource Providers

- Financial strength to invest
- Scalable and efficient operating platforms
- Enhanced risk and control environment
- Enhanced customer services capability

✓ Improved customer service

✓ Transformed outsourcing operations

✓ Risks controlled

✓ Repeatable and scalable

✓ Leverage lower cost offshore centres

✓ Technology future proofed

✓ Acquisition ready

Phoenix outsourcer landscape – sizeable operations, with know-how to transform into scalable platforms

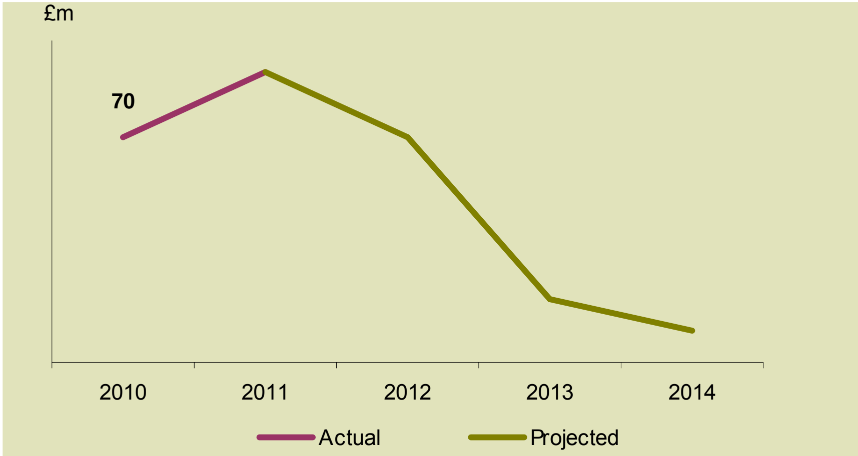
	FY10 cost of £144m	
	Policies	% of book
Diligenta	4.3m	62.8%
Capita	2.2m	32.1%
HCL	220k	3.2%
Capita Hartshead	80k	1.2%
Percana	50k	0.7%

- As funds run off, fixed costs have an ever-increasing impact
- Outsourcers have scale, common processes across multiple clients, multi client platforms
- Contracts are written on a long-term basis (10-15 years)
- Longer term strategic investment models
- Outsourcing
  - ✓ converts fixed to variable costs
  - ✓ reduces investment costs
  - ✓ technology future proofing our “administration” capability
  - ✓ reduces our operational risk

Run off of transformation project costs

Outsourcer	£ 144m
Retained	£84m
Projects	**£70m**
Total Phoenix Life management expenses	£298m

Illustrative project costs



- Project costs increase in 2011 owing to Solvency II and AST
- OSP transformation projects largely conclude in 2011 with residual work in 2012

We are a low cost and efficient provider

Outsourcer	£ 144m
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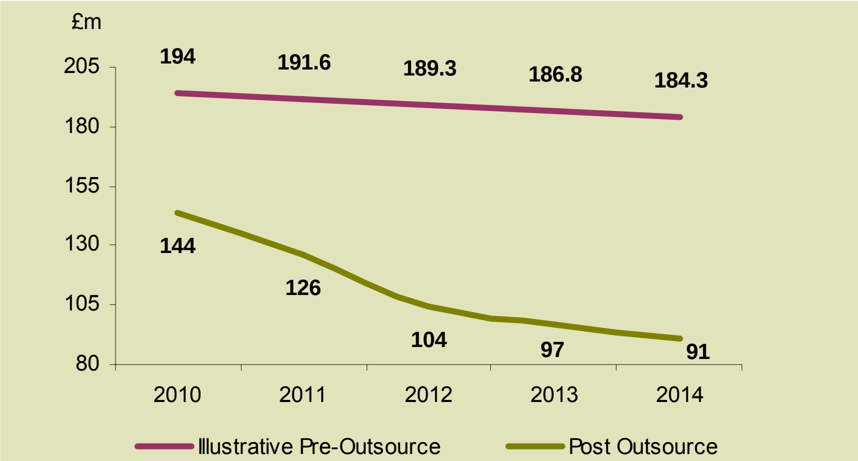
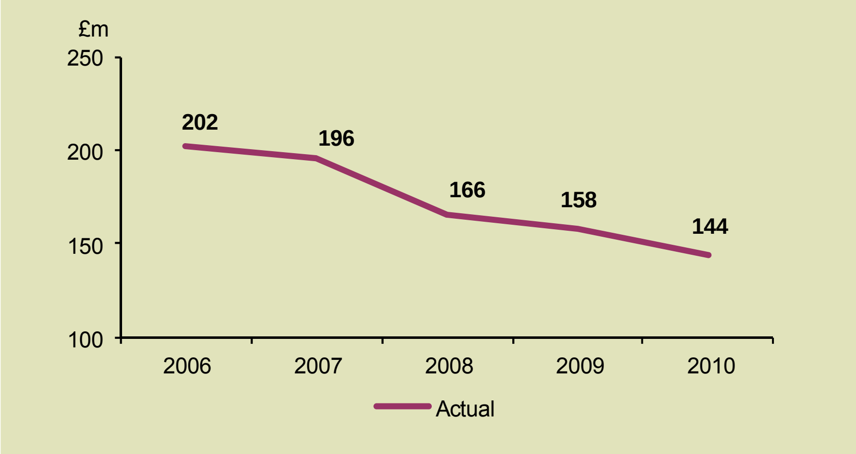
Total Phoenix Life management expenses	£298m

‘Positive Jaws’ cost reductions exceed run-off profile



Outsourcer costs



- Outsource cost savings driven through contractual benefits of outsource operations
- Regulatory change covered within price per policy
- 63.2% of cost base converted from fixed to variable cost

Note: Pre-outsource line on graph above shows the costs of customer services and IT departments, projected forward from 2006 by factoring in RPI and netting off best guess estimate of £10m efficiency savings on an annual basis

Operational Management	Outsourcing
Restructuring	Risk Management

Case study: Actuarial Systems Transformation

Background	• Phoenix Group has grown through acquisition of closed fund businesses • Valuation models have been integrated on a "lift and shift" basis with some tactical improvements, but resulting in a disparate collection of models on a variety of platforms, for the 7 life companies and 19 life funds (with profit and non profit) now included within the Group
Actions	• Long term relationship established with Millimans to consolidate onto the MG ALFA platform • Rigorous selection process and commercial experience has ensured payments are made on successful outcome and delivery of milestones • Progress is continuing to plan
Result	• Reduced operational risk (and associated capital) of actuarial modeling • Improved quality and frequency of capital monitoring whilst demonstrating technical compliance • Improved cost efficiency by simplification/standardisation of actuarial processes • Acquisition ready platform – absorbed at marginal financial reporting cost

Wrap up and Q&A

Mike Merrick

In Summary

- ✓ Risk management is a core activity
- ✓ Phoenix Life has a simple business model with a successful outsourcing strategy
- ✓ Within Phoenix, there are a number of value streams with significant synergy benefits
- ✓ Very experienced and focused management team
- ✓ Focused on the delivery of value for shareholders and policyholders and a simpler, sustainable long term business

Q&A