PHOENIX GROUP

Half Year Results 2011

Continuing the Phoenix journey

25 August 2011

Agenda

Introduction & business update	**Clive Bannister** Group Chief Executive
Financial review	**Jonathan Yates** Group Finance Director
Summary and Q&A	**Clive Bannister**

Introduction & business update

Clive Bannister

The Phoenix Group is on a journey

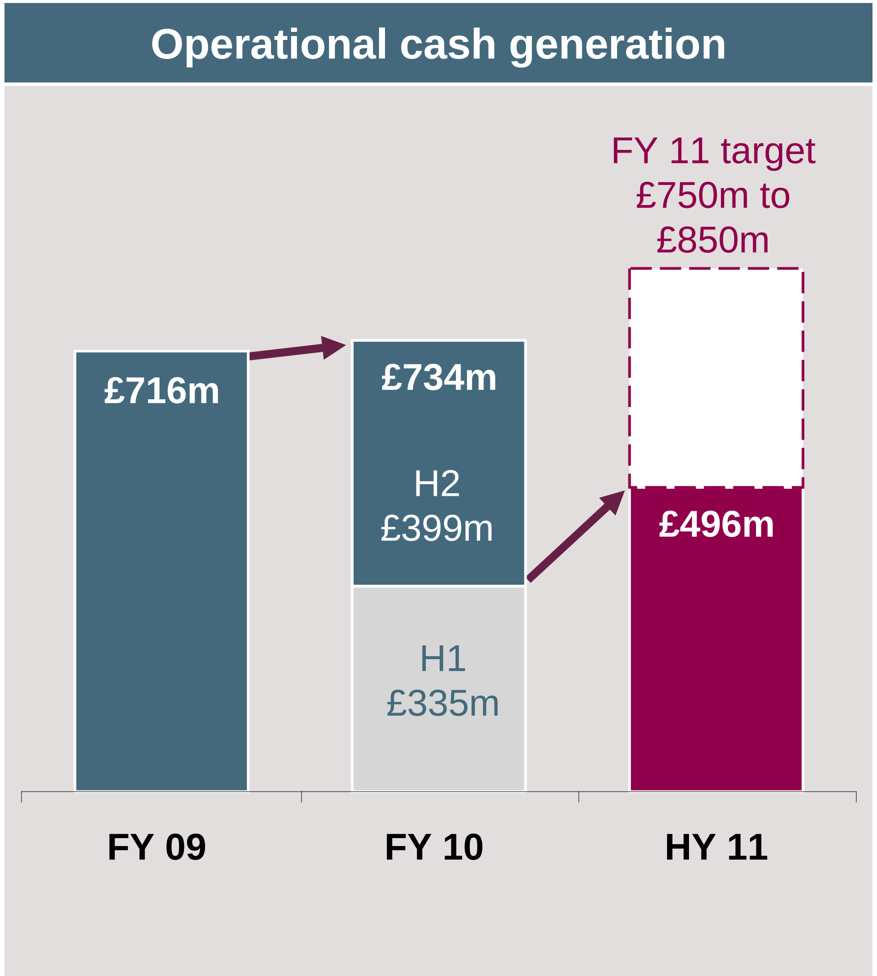
2008
- Private equity ownership
- Resolution acquisition

2009
- Liberty restructuring

2010
- Corporate, operational and financial delivery

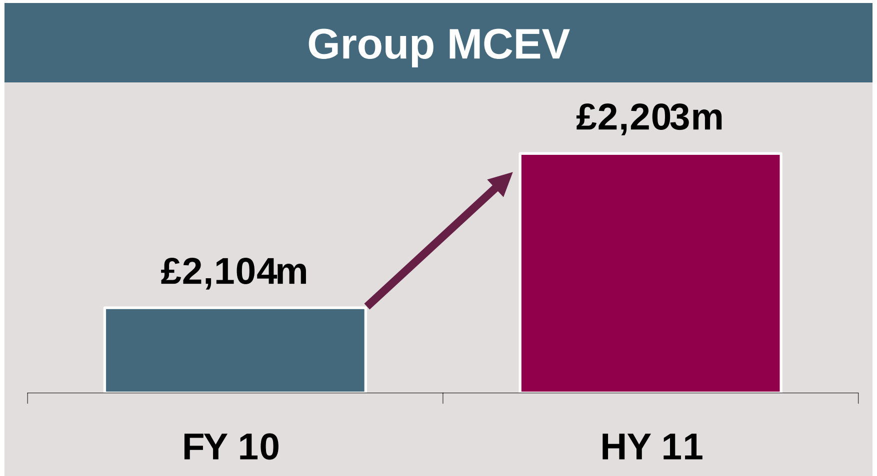
H1 2011
- ✓ Strong cash flow generation
- ✓ Enhanced MCEV
- ✓ Organic degearing
- ✓ Continued operational delivery
- ✓ Proposed dividend of 21p per share

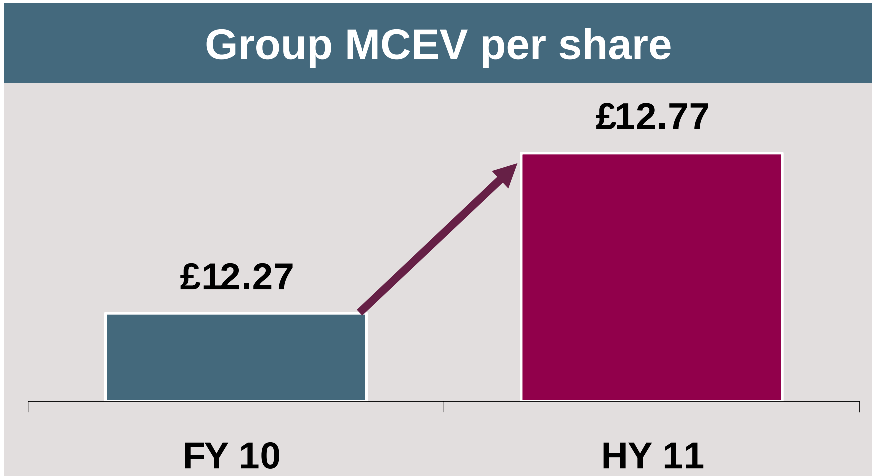
Consistent growth in operational cash generation



- ✓ Cash generation of £496m has remained strong in the period
- ✓ Includes £197m cash acceleration
  - £171m from restructuring activities
  - £18m operational management benefit including resolution of legacy tax issues
  - £8m from investment portfolio derisking activities
- ✓ On track to achieve FY 11 operational cash generation target of £750m to £850m

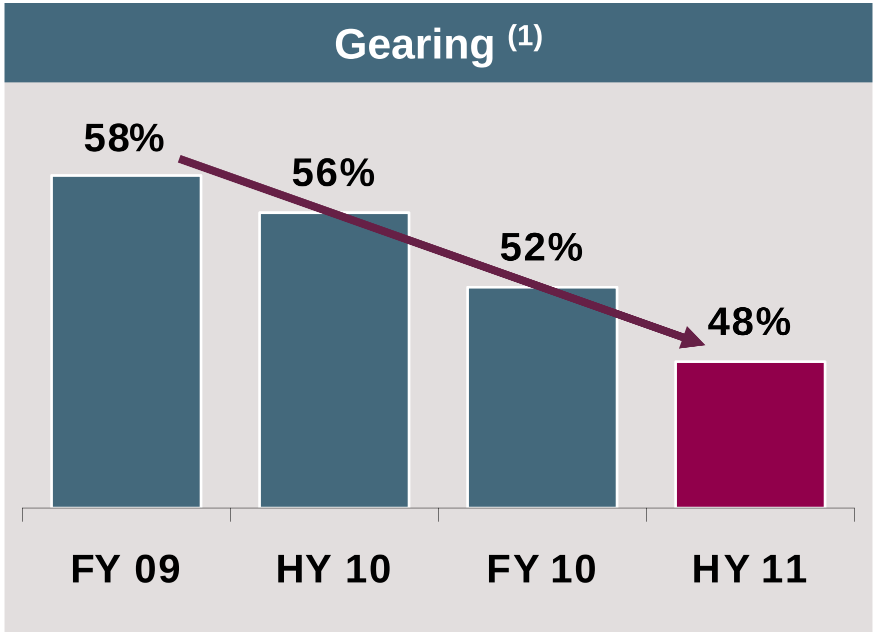
Substantial value in MCEV





- ✓ Includes £69m incremental value delivered from management actions
  - ➢ £30m restructuring benefit and
  - ➢ £39m operational management benefit
- ✓ On track to achieve FY 11 incremental value target of £100m
- ✓ Equates to MCEV per share of £12.77 up from £12.27 per share at FY 10
- ✓ MCEV excludes present value of IGNIS future profits of £0.4bn, equivalent to £2.35 per share

Organic de-leveraging continues



- ✓ Improvement in gearing largely driven by £108m total debt repayment in H1 and growth in MCEV
- ✓ Achieved FY 11 target of < 50%
- ✓ Cash generative business model enables organic debt pay-down
- ✓ Discussions with lenders ongoing on the best structure and timing of bank restructuring

(1) Net shareholder debt as a percentage of the sum of Group MCEV, net shareholder debt and the present value of future profits of IGNIS

Focus on operational delivery

Phoenix Life

- ✓ Completed Phoenix & London Assurance Limited and Phoenix Life Limited funds merger
- ✓ Recaptured Phoenix Pensions Limited internal reinsurance arrangement
- ✓ Capital restructuring of London Life Limited
- ✓ Standardisation of approach to with-profits funds, enhancing distributable estate
- ✓ Further annuities vestings being written into non-profit funds
- ✓ First major outsourcer transformation programme nearing completion
- ✓ Continued focus on improving customer service
- ✓ All critical Solvency II milestones met to required standard

IGNIS

- ✓ Continued build out of Business Unit model
- ✓ £0.8bn of net new money
- ✓ Launched two new funds
- ✓ Further strengthening of executive & investment teams

Financial review

Jonathan Yates

Financial highlights

£m unless otherwise stated	HY 11	HY 10	FY 10
Cash			
Operating companies cash generation	496	335	734
IFRS operating profit			
Group operating profit	136	176	373
IGNIS operating profit	18	22	46
Group Market Consistent Embedded Value ("MCEV")	2,203	1,962	2,104
Group MCEV per share (1)	£12.77	£11.90	£12.27
Return on MCEV (annualised) (2)	12%	17%	15%
IGD surplus	1.1bn	1.3bn	1.0bn
IGD excess over capital policy	0.3bn	0.4bn	0.1bn
Group assets under management (3)	68.5bn	67.5bn	69.6bn
Gearing	48%	56%	52%
Dividend per share	21p	21p	42p

(1) HY 11, HY 10 and FY 10 based on shares in issue of 172.6m at 30 June 11, 164.8m post Premium Listing and 171.5m at 31 Dec 10 respectively
(2) Return on MCEV calculated as total comprehensive income as a percentage of opening Group MCEV
(3) AuM represents all assets managed or administered by or on behalf of the Group

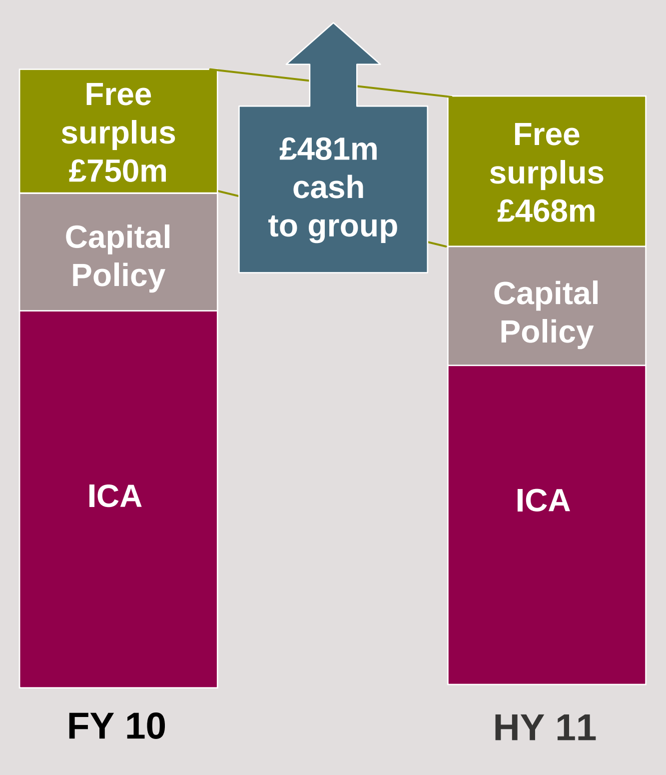
Cash generation demonstrates strength of Group's business model

£m	HY 11	HY 10	FY 10
Opening cash in holding companies	**486**	**202**	**202**
Cash receipts			
Phoenix Life	481	326	708
IGNIS	15	9	26
Total cash receipts	**496**	**335**	**734**
Recurring cash outflows			
Operating expenses	(28)	(15)	(45)
Pension scheme contributions	(5)	(3)	(38)
Debt interest	(77)	(76)	(123)
Total recurring cash outflows	**(110)**	**(94)**	**(206)**
Total non-recurring cash outflows	(15)	(59)	(79)
Uses of cash before debt repayments and shareholder dividend	(125)	(153)	(285)
Debt repayment	(108)	(22)	(122)
Shareholder dividend	(29)	(20)	(43)
Total cash outflows	**262**	**195**	**450**
Closing cash and cash equivalents in holding companies	**720**	**342**	**486**

- £234m net cash generated in H1
- Increased cash remitted by Phoenix Life reflects management actions and strong free surplus
- Pension scheme contributions mainly due in H2
- Significant decrease in non-recurring cash outflows as business transformation projects nearing completion
- Debt repayment comprised £21m voluntary and £87m scheduled payments. Mandatory repayments of £63m due in H2

£199m free surplus generated in HY 11

Emergence of free surplus



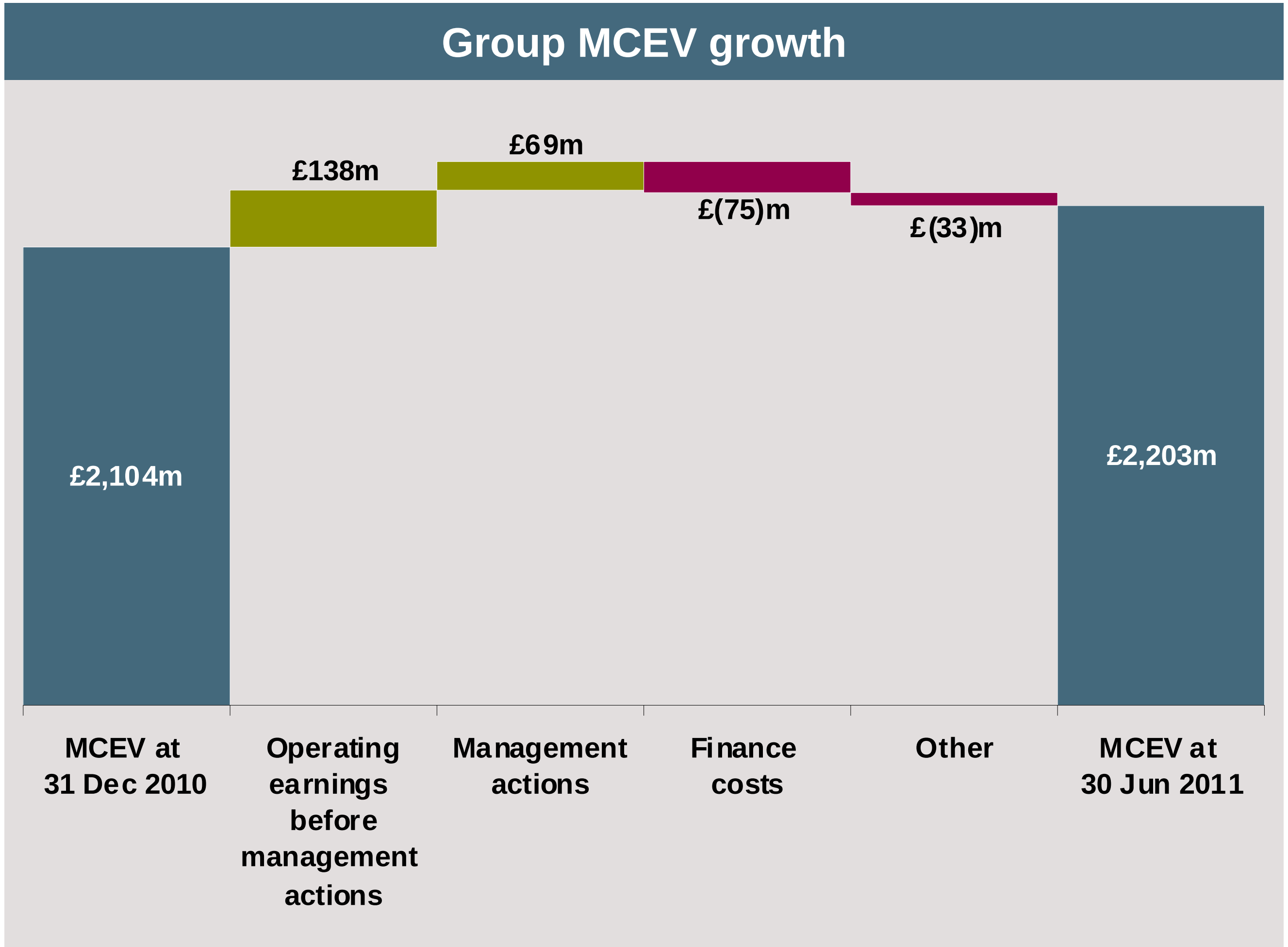
£m	HY 11	HY 10	FY 10
Opening Phoenix Life free surplus	**750**	**464**	**464**
Emergence of free surplus			
IFRS operating profit (net of tax)	141	180	464
IFRS economic variances and non-recurrings	54	160	(73)
Movements in capital requirements & capital policy	79	160	405
Valuation differences and other	(75)	(43)	198
Free surplus generated	**199**	**457**	**994**
Cash distributed to holding companies	**(481)**	**(326)**	**(708)**
Closing Phoenix Life free surplus	**468**	**595**	**750**

Group IFRS operating profit of £136m

£m	HY 11	HY 10
Phoenix Life	152	182
IGNIS	18	22
Group costs	(34)	(28)
Operating profit before tax	**136**	**176**
Investment return variances and economic assumption changes	47	128
Variance on owners' funds	(3)	28
Amortisation of acquired in-force	(69)	(73)
Non-recurring items	13	(19)
Finance costs	(55)	(60)
Profit before tax attributable to owners	**69**	**180**
Tax credit attributable to owners	39	27
Profit for period attributable to owners	**108**	**207**

- 2011 results in line with previous guidance for underlying Phoenix Life operating profit of £275m to £325m for FY
- Phoenix Life operating profit in 2010 benefited from positive experience variances relating to back book management and mortality not repeated in HY 11
- IGNIS operating profit reflects investment in business development partly off-set by increased stock lending collateral management fees and increased third party revenue
- 2010 investment return benefited from strong returns on hedge fund and property investments
- Non-recurring items were positively impacted by a recovery of historic costs under MSA agreements, offset by regulatory and systems transformation costs

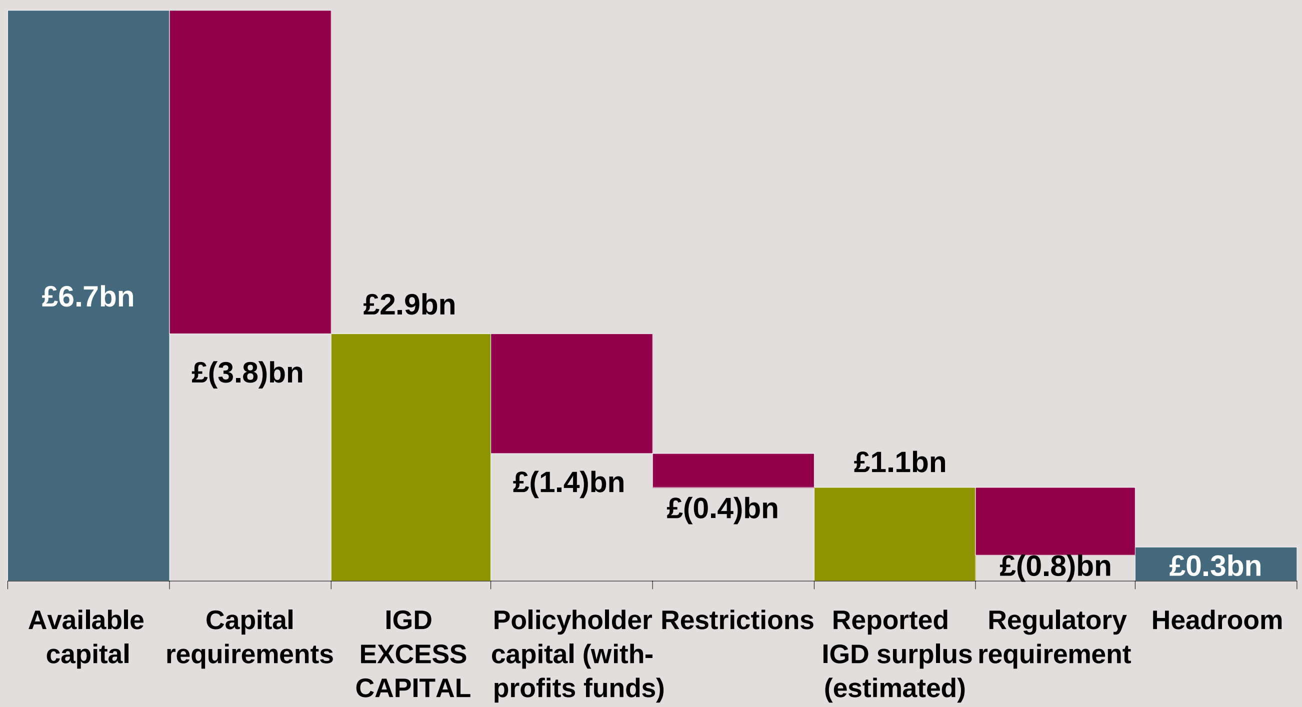
Stable embedded value in the business



- £99m increase in Group MCEV from FY 10 includes £69m created from management actions
- Finance costs comprised debt interest of £40m, tier 1 coupon payment of £27m and swap interest of £8m
- Other includes dividends of £36m

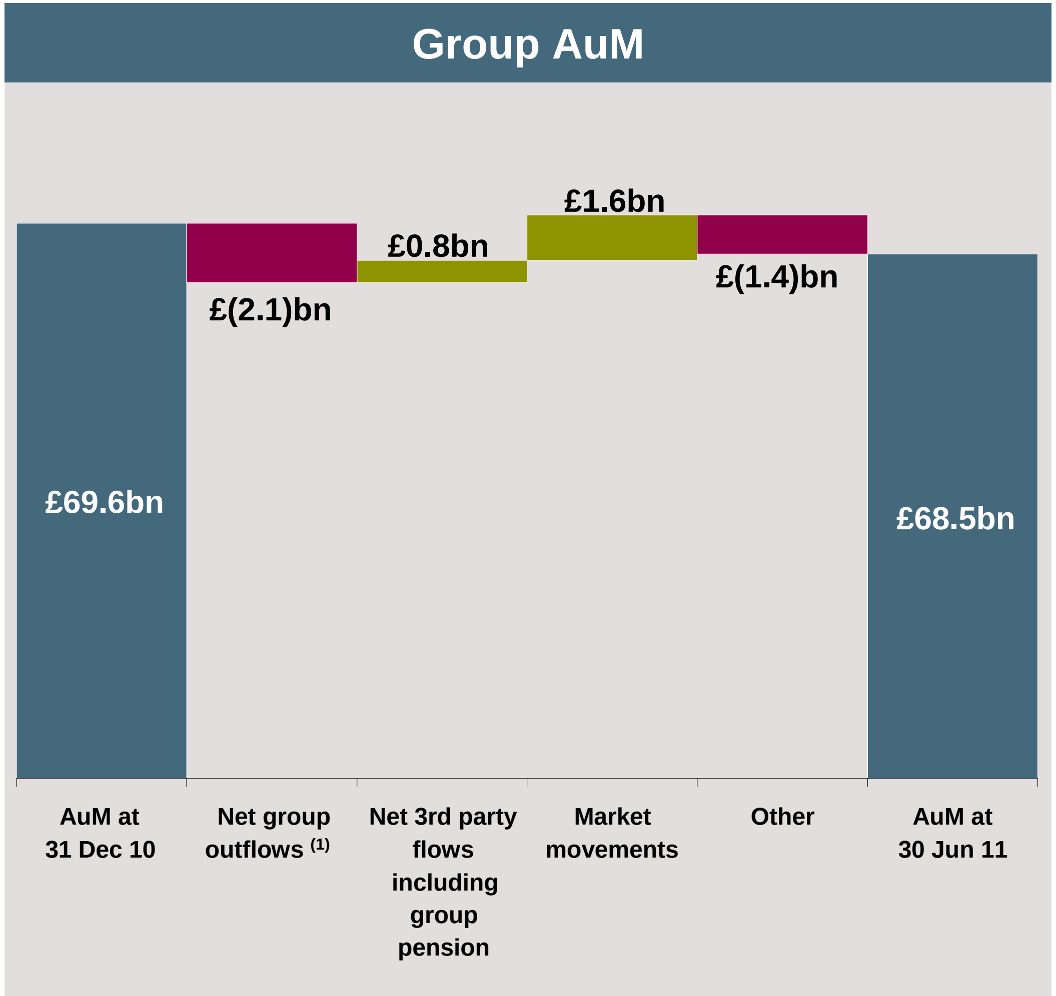
Strong solvency capital

Estimated IGD



- IGD surplus of £1.1bn up from £1.0bn at FY 10
- IGD Excess Capital of £2.9bn up from £2.8bn at FY 10
- Headroom of £0.3bn above capital policy

Development in Group assets under management



- Group AuM includes
  - life company assets of £60.4bn managed by IGNIS or by third parties
  - third party assets of £7.4bn managed by IGNIS and
  - £0.7bn of holding companies cash but
  - excludes stock lending collateral of £9.5bn
- Reduction in AuM due to
  - run off of closed life funds
  - transfer of £1.0bn assets in respect of the Hexam partnership
- Net new 3rd party assets of £0.8bn mainly related to liquidity funds and a rates liability driven investments (LDI) mandate from the group pension scheme

(1) Phoenix Life run-off net of holding companies cash receipts

Resilience of balance sheet

Asset mix of life companies at 30 June 2011

£m unless otherwise stated	Total shareholder, non-profit and supported with-profits (1)	%	Policyholder funds (2)		Total Policyholder funds	Total assets (4)
			Non-supported with-profits funds	Unit linked		
Cash deposits	**4,794**	**17%**	**5,441**	**1,007**	**6,448**	**11,242**
Debt securities						
Debt securities - gilts	7,606	27%	7,742	891	8,633	16,239
Debt securities - bonds	12,482	45%	7,783	885	8,668	21,150
Total debt securities	**20,088**	**72%**	**15,525**	**1,776**	**17,301**	**37,389**
Equity securities	**1,219**	**4%**	**6,621**	**8,438**	**15,059**	**16,278**
Property investments	**285**	**1%**	**887**	**339**	**1,226**	**1,511**
Other investments (3)	**1,385**	**5%**	**1,895**	**12**	**1,907**	**3,292**
Total	**27,771**	**100%**	**30,369**	**11,572**	**41,941**	**69,712**

Note: The analysis of the asset portfolio comprises assets held by the Group's life companies including stock lending collateral. It excludes other Group assets such as cash held in holding companies, service companies and IGNIS asset management, the assets held by non-controlling interest in collective investment schemes and UKCPT and is net of derivative liabilities

(1) Includes assets where shareholders of the life companies bear the investment risk

(2) Includes assets where policyholders bear most of the investment risk

(3) Includes repurchase loans of £1,772m, policy loans of £47m, derivatives of £509m and other investments of £964m

(4) This information is presented on a look through basis to show any indirect holdings (where such information is available)

Limited exposure to peripheral Eurozone [(1)] debt securities

£m	Other Government and Supranational		Corporate: Financial Institutions		Corporate: Other		Asset backed securities		Total debt securities	
	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder
UK	7,606	8,633	2,152	1,413	1,465	1,187	796	1,015	12,019	12,248
USA	174	117	579	407	845	317	40	17	1,638	858
Peripheral Eurozone	161	132	319	202	328	222	54	161	862	717
Other[(2)]	2,362	1,479	1,063	974	2,058	861	86	164	5,569	3,478
Total debt exposure	**10,303**	**10,361**	**4,113**	**2,996**	**4,696**	**2,587**	**976**	**1,357**	**20,088**	**17,301**

Shareholder exposure to sovereign debt securities

- Peripheral Eurozone <2% (£161m)
  - Nil to Greece and Portugal
  - £2m to Ireland
  - £46m to Spain
  - £113m to Italy

Shareholder exposure to total debt securities

- Peripheral Eurozone <5% (£862m)
  - Nil to Portugal
  - £7m to Greece
  - £165m to Ireland
  - £313m to Italy
  - £377m to Spain

(1) Defined as Portugal, Italy, Ireland, Greece and Spain

(2) Other mainly relates to Germany, France, Netherlands and Luxembourg. Further disclosure of debt exposure by countries provided in appendix III

IGD highly insensitive to market movements

£bn	IGD surplus	IGD Excess Capital	IGD excess over capital policy
IGD at 30 June 2011 (estimated)	1.1	2.9	0.3
20% fall in equity markets	1.1	2.5	0.3
15% fall in property values	1.1	2.7	0.3
75 bps increase in yields	1.1	2.9	0.3
75 bps decrease in yields	1.1	2.9	0.2
Credit spreads widening(1)	1.1	2.8	0.3
Combined stress (25% fall in equity markets, 20% fall in property, 75 bps increase in yields and credit spreads widening (1))	1.0	2.0	0.3

- IGD Excess Capital is more sensitive than IGD Surplus
- Sensitivities assume a one-off permanent impact
- Sensitivities assume a more severe stress than experienced in recent market events

(1) 10 year term: AAA – 52bps, AA – 72 bps, A – 104 bps, BBB – 152 bps

Summary
Clive Bannister

On track to achieve all 2011 financial targets

	FY 11 Targets	HY 11 Delivery	
Cash generation	**£750m to £850m**	**£496m**	✓ Delivered £496m which includes £197m of cash flow acceleration from management actions ✓ Cash generated to date provides confidence over FY 11 target ✓ Contributes towards £3.2bn cash generation target by 2016
Gearing	**<50%**	**48%**	✓ Achieved with scope for further organic reduction
MCEV enhancement	**£100m**	**£69m**	✓ Delivered £69m of target contribution to MCEV from management actions ✓ On track for FY 11 £100m target

The Phoenix Group is well positioned

2008	2009	2010	**2011**

- ✓ Unique, simple business model
- ✓ Proven management team and operating platform
- ✓ Clear strategy and focus on delivery

Our objectives are to deliver:

- ✓ Strengthened cashflow
- ✓ Enhanced MCEV
- ✓ Appropriately geared balance sheet
- ✓ Operational focus

Although economic conditions are challenging, we are confident regarding the outlook for 2011 and beyond

Q&A

Appendices

Appendix I – Phoenix Life IFRS operating profit drivers

		HY 11			HY 10		
Fund type	**How profits are generated**	**Reported IFRS Op Profit £m**	**Average liability/ equity £bn**	**Net margin [1] bps**	**Reported IFRS Op Profit £m**	**Average liability/ equity £bn**	**Net margin [1] bps**
With-profit	Our share of bonuses paid to policyholders of with-profit business	27	24.6	23	27	24.3	22
With-profit (internal capital support)	Return on with-profit funds which are supported with capital from shareholder funds	30	10.0	nm	-	10.8	nm
Unit linked	Margin earned on unit linked business	29	12.0	47	45	11.6	78
Annuities	Spread earned on annuities	13	9.6	27	38	9.1	83
Protection and other non-profit	Investment return and release of margins	20	0.9	nm [2]	35	0.6	nm [2]
Shareholder funds	Return earned on shareholder fund assets	33	2.0	339	37	2.8	270
Total		**152**			**182**		

(1) Net margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities and shareholder equity

(2) Not meaningful as relates to insurance margin

Appendix II – IGNIS IFRS operating profit drivers

	HY 11			HY 10		
	IFRS results £m	Closing AuM £bn	Margin (1) bps	IFRS results £m	Closing AuM £bn	Margin (1) bps
Retail revenue	9	2.1	76	8	2.0	74
Institutional, international and Group pension revenue	7	5.3	26	7	4.6	31
Life funds revenue	50	59.8	17	49	59.2	17
Total revenue/IGNIS AuM	**66**	**67.2bn**		**64**	**65.8bn**	
Staff costs	(29)			(27)		
Other operating expenses	(19)			(15)		
Total IGNIS IFRS operating profit	**18**			**22**		
Operating profit margin	27%			34%		

(1) Margin based on average AuM over period and includes performance fees

Appendix III – Total debt exposure by country

£m	Other Government and Supranational		Corporate: Financial Institutions		Corporate: Other		Asset backed securities		Total debt securities	
	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder	Shareholder	Policyholder
UK	7,606	8,633	2,152	1,413	1,465	1,187	796	1,015	12,019	12,248
European Investment Bank	1,097	690	-	-	-	-	-	-	1,097	690
Germany	1,067	623	85	51	457	199	-	-	1,609	873
USA	174	117	579	407	845	317	40	17	1,638	858
Italy	113	99	59	38	132	90	9	28	313	255
France	66	39	270	244	568	267	8	19	912	569
Netherlands	43	36	349	363	121	42	57	121	570	562
Spain	46	23	167	148	150	113	14	38	377	322
Portugal	-	10	-	-	-	-	-	-	-	10
Luxembourg	-	4	-	-	176	18	-	-	176	22
Ireland	2	-	93	16	39	19	31	95	165	130
Greece	-	-	-	-	7	-	-	-	7	-
Other (1)	89	87	359	316	736	335	21	24	1,205	762
Total debt exposure	**10,303**	**10,361**	**4,113**	**2,996**	**4,696**	**2,587**	**976**	**1,357**	**20,088**	**17,301**
of which peripheral Eurozone	**161**	**132**	**319**	**202**	**328**	**222**	**54**	**161**	**862**	**717**

Note: Shareholder includes non-profit and supported with-profits. Policyholder includes non-supported with-profits and unit linked

(1) Other mainly includes Australia, Switzerland, Belgium, Guernsey and Jersey

Appendix IV – Total equities exposure by country

£m	Shareholder		Policyholder		Total equities
	Shareholder and non-profit	Supported with-profits	Non supported with-profits	Unit linked	
UK	227	274	3,482	5,469	9,453
USA	71	90	1,027	866	2,054
France	9	18	159	187	373
Germany	9	18	162	173	362
Netherlands	3	7	59	93	162
Italy	3	7	57	65	132
Ireland	14	2	89	19	124
Spain	8	7	48	72	135
Luxembourg	1	3	12	18	34
Greece	-	-	1	6	7
Portugal	-	-	1	-	1
Other	56	392	1,524	1,470	3,442
Total equities exposure	401	818	6,621	8,438	16,278
of which peripheral Eurozone	25	16	196	162	399

Appendix V – MCEV sensitivities

£m	HY 11
Base at 30 June 11	2,203
1% decrease in risk free rates	158
1% increase in risk free rates	(132)
10% decrease in equity market values	(81)
10% increase in equity market values	81
10% decrease in property market values	(81)
10% increase in property market values	81
100 bps increase in credit spreads	(258)
100 bps decrease in credit spreads	236
25% increase in equity/property implied volatilities	(35)
25% increase in swaption implied volatilities	(26)
25% decrease in lapse rates and paid-up rates	(6)
5% decrease in annuitant mortality	(164)
5% decrease in non-annuitant mortality	28
Required capital equal to minimum regulatory capital	37
Swap curve as reference rate, retaining appropriate liquidity premiums	(170)

Appendix VI – Maturity profile of business

£m	1-5 years	6-10 years	11-15 years	16-20 years	20+ years	Total
Present value of future profits						
30 June 2011	1,136	778	510	253	258	2,953
31 December 2010	1,147	848	488	271	268	3,022
30 June 2010	930	791	539	301	321	2,882

Appendix VII – Gearing

£bn	HY 11	FY 2010	HY 10	FY 2009
Net shareholder debt	2.4	2.7	2.9	3.1
Group MCEV	2.2	2.1	2.0	1.8
IGNIS present value of future profits	0.4	0.4	0.4	0.4
Gearing	48%	52%	56%	58%

Appendix VIII – IGNIS 3rd party new business flows

£m	HY 11	HY 10
Gross flows		
Retail	382	503
Institutional (1)	65	221
International	55	190
Liquidity funds (net)	347	413
Total	**849**	**1,327**
Net flows		
Retail	(5)	153
Institutional (1)	(23)	88
International	17	121
Liquidity funds (net)	347	413
Total	**336** (2)	**775**

(1) HY 11 excludes £430m from new rates LDI mandate from the Group pension scheme

(2) Total net flows including new rates LDI mandate from the Group pension scheme is £766m

Appendix IX – Summary of bank facilities

	£m	Coupon	Maturity	Repayment
Bank facility	400	L+125bps	2016	£25m p.a. 2011-2015 Balance in 2016
Subordinated Lender Loan Notes	77	L+100bps (1)	2024	Bullet
Total Pearl bank debt	**477**			
Facility A	1,070	L+200bps (2)	2014	£125m p.a. from 2011 Balance in 2014
Facility B	492.5	L+200bps (3)	2015	Bullet
Facility C	492.5	L+200bps (4)	2016	Bullet
Total Impala bank debt	**2,055**			

Notes:

(1) For each interest period the Group may elect to defer the coupon to the maturity of the Lender Loan Notes

Up to 2nd September 2012 the Group may elect to defer payment of:

(2) In respect of Facility A, 100bps of the coupon until the maturity of Facility A. From 2nd September 2013 the coupon on Facility A will increase to L+250bps

(3) In respect of Facility B, 75bps of the coupon until the maturity of Facility B. From 2nd September 2013 the coupon on Facility B will increase to L+325bps

(4) In respect of Facility C, 25bps of the coupon until the maturity of Facility C. From 2nd September 2013 the coupon on Facility C will increase to L+375bps

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 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’, ‘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 European Union's "Solvency II” requirements 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.
- Nothing in this presentation should be construed as a profit forecast.
- 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.
- For comparative purposes, FY09 information includes the Pearl businesses from 1 January 2009, although the acquisition date for accounting purposes was 28 August 2009. Pearl Businesses is defined as PGH (LCA) Limited, PGH (LCB) Limited, PGH (TC1) Limited, PGH (TC2) Limited and Opal Reassurance Limited, together with their subsidiaries, being the five companies acquired by Phoenix Group Holdings on 2 September 2009.