PHOENIX GROUP

Phoenix Group plc Analyst Presentation and Trading Update

Thursday 12 May 2016

Clive Bannister, Group Chief Executive

Good morning everyone, my name's Clive Bannister. We have chosen the largest room in London and the hottest day of the year and we hope those two will balance themselves out, the room is not air conditioned, I will be shortly losing my jacket.

You are very welcome, very welcome indeed. As we mentioned at our Full Year Results on 23rd March we thought it would be helpful to hold an additional meeting to talk about Solvency II and how it will impact the way in which Phoenix, the way we run our business, and on our financials.

As well as Jim I'm accompanied today by our Group Chief Actuary, Simon True, and Rakesh Thakrar who is the Group Deputy Finance Director. It is those two who will be taking you through the majority of today's presentation, Jim and I are here for entirely ornamental purposes, but at the end we will have a Q&A session, I intend to hand you over to Jim to start things off. Thank you very much.

Jim McConville, Group Finance Director

Thank you, Clive. It's a good start having been described as an ornament. Good afternoon everyone. To introduce the session I wanted to start with our concluding slide from our Full Year Results some six weeks ago. We had a busy 2015, achieving an investment grade rating, as well as being given regulatory approval for our Solvency II internal model. In addition, we have set a new £2 billion cash flow target for 2016 to 2020, supporting our stable and sustainable dividend policy. The actions taken over the past year positions us well as we now seek to grow the business through acquisition.

The topics today may at first sight look rather dry, however the way we manage and add value to our business under Solvency II also has a direct impact on how we will also look at future acquisitions and is therefore highly relevant to the Group's strategic future.

It is undoubtedly true that regulation has been a major driver for change within our industry in the past few years. From a capital perspective the Solvency II regime is now in force after a long period of preparation, with firms now operating either internal models or adopting the standard formula.

However, it would be premature to state that all the issues around Solvency II are now fully understood by the industry and the market, there continue to be discussions with the regulator around specific technical areas such as matching adjustments for certain asset classes, as well as how new metrics such as risk margins and transitionals are behaving in current market conditions.

From the conduct side the FCA's agenda remains as busy as ever, there is also a link between the capital and conduct areas with future actions around exit charges and investment and customer service likely to have a knock-on impact.

There are three main areas that we will cover today. Simon will take you through a recap of our Solvency II position and how our internal model provides us with greater clarity over our capital requirements.

The internal model drives how we view our balance sheet in terms of risks and rewards. This naturally flows onto the types of management actions we have either already taken or plan to take in the future. In addition, the internal model assists Phoenix in accurately pricing acquisition opportunities including assessing the potential diversification and synergy benefits.

Our strategy has always been focused on cash flows and this remains the case under Solvency II, however with ourselves and some of our peers deciding that MCEV is less helpful in a Solvency II world there is clearly a requirement for the industry to help both the sell side and the buy side understand key drivers for value generation under the Solvency II regime. Therefore Rakesh will talk through the planned financial reporting for Phoenix in future and how investors can understand the building blocks of our cash generation. This allows us to reduce the number of KPIs we will report to those that specifically drive future cash generation.

Before passing to Simon I want to talk you through the short trading update we provided this morning. Phoenix has had a solid start to the year, generating £130 million of cash in the first four months. This is against the full year target of £350 million to £450 million which we are on track to meeting.

We continue to work on optimising our balance sheet for Solvency II with the aim of generating further free surplus within the Group's life companies that can then be remitted as cash. We have also taken action this year on our debt structure. We discussed the new £650 million revolving credit facility at our full year results which has reduced interest costs and extended maturity of the Group's debt. We have also repaid the residual £600 million of Tier 1 bonds in April.

In terms of potential acquisition opportunities you will have seen a number of media reports referencing possible M&A activity. We obviously cannot comment on specific transactions but we remain confident that there will be future opportunities for Phoenix to grow its business through acquisition.

I will now pass you across to Simon to talk you through our Solvency II position.

Simon True, Group Chief Actuary

Thank you Jim and good afternoon everyone. I'm going to be taking you through a couple of topics this afternoon, firstly I'm going to have a quick canter through the components of our Solvency II balance sheet and then a more detailed description about how we think about management actions and M&A in our new Solvency II world.

The basis of Solvency II is well known to many of you, but it is worth recapping on a couple of key elements of the balance sheet and the starting point for this is the best estimate liabilities and these are the amounts that we expect to pay out to policy holders over time on our best estimate assumptions. Conceptually this is exactly the same starting point as under the ICA regime. However, under Solvency II the discount rate used to derive the present

value of these liabilities is now prescribed by EIOPA and this is based on swap rates less an allowance for credit risk.

All the other items above this: the risk margin; the solvency capital requirement; the SCR; capital management policies and free surplus all provide additional protection for policyholders. Assuming our assumptions about best estimates are proved correct these additional buffers will be released over time as our book runs off.

As we've said a number of times Phoenix was granted approval for its internal model in December and this provides us with sovereignty over our capital requirements by which I mean there are no additional capital add-ons imposed upon the Group. Our internal model is the platform upon which we can determine the costs and benefits of future management actions.

In addition it provides an articulation of the risks that we may take on as part of an acquisition and the corresponding marginal capital requirements of any target business. The solvency capital requirements are calibrated to a 1 in 200 year risk appetite and this is of course similar to the previous ICA regime.

We have set out on this slide some examples of what a 1 in 200 year event looks like in terms of single stresses in the Phoenix internal model. As you can see, the Solvency II regime continues to provide a significant level of protection for policyholder benefits.

Although Solvency II has changed a number of things, the calculation, the terminology of our capital resources and requirements, our underlying financial framework is unchanged. Solvency II continues to be calculated at the level of PLHL as were the historic IGD and PLHL ICA under our old Solvency I regime.

So if I start with the green box in the bottom right corner of your slide the Group's life companies hold a capital management buffer above the Solvency II SCR. Any free surplus above this which was £97 million at the year-end will be available for distribution to the holding companies as cash.

In addition, Opal Re which is our now de-authorised captive Bermudan reinsurance company held around £125 million of financial assets as at the year-end. As I will discuss in the next section these assets will be available for release to the holding companies in due course.

At the Phoenix Life Holdings level we have a surplus under Solvency II of £1.3 billion and of this total surplus the life companies' capital management buffers account for around £0.6 billion.

In summary, there is little change to how we report our numbers compared to Solvency I and our focus, as Jim has already said, remains on generating the free surplus within Phoenix Life which can then be remitted to the holding companies as cash.

The cash we hold at holding company level provides the Group with additional resilience allowing it to service its debt obligations as well as providing support for our stable and sustainable dividend.

So let me now turn to how we think about the management of risk within the Group. Phoenix's approach varies by type of product or fund because these in turn have differing risk and reward characteristics for both policyholders and shareholders.

With profit funds make up around £29 billion of our life company assets under management and here we focus on two key objectives. For our stronger or unsupported with profit funds of which we manage around £24 billion our focus here is to accelerate the distribution of the estates to policyholders whilst ensuring that at all times these funds are managed to a stable capital position.

For the £5 billion of with profit funds for whom there is capital support provided by the shareholder we aim to take actions that remove unrewarded risks in order that these funds can progress to becoming self-supporting from a capital perspective over time. At all times we will continue to adhere to the promises made to policyholders in these funds, however our ultimate aim is for these to reduce the shareholder capital support required.

For our £10 billion of unit linked book, policyholders have direct exposure to the performance of the funds that they have chosen to be invested in. Shareholder's interest is represented by the management fees which are in turn impacted by market movements and the lapse experience on the book less the expenses incurred upon this business. Therefore the key risks which we seek to manage are the residual market exposures and the expense base.

And finally, for the £8 billion non-profit book, the vast majority of which is made up in our annuity portfolios, shareholders have a direct exposure to both the investment and the demographic experience. And as you will see in a moment these risks account for a significant proportion of our overall capital requirements under Solvency II.

I'd just like to take you back to a quick reminder of what our Solvency II position was at the year end 2015 and the numbers we're showing here represent the finalised Solvency II position including the audit of the Group's own funds. I'm sure the eagle-eyed amongst you will have noticed a very slight difference to the estimated numbers that we provided at the full year results but there won't be a test. These differences are not material and they do not impact the level of surplus or the sensitivity analysis that we provided at that time.

So as at the end of 2015 we had eligible own funds of £5.7 billion; a Group SCR of £4.4 billion which gave us a surplus at PLHL level of £1.3 billion.

I've already described the strong with profit funds within which we have surplus estates which will be distributed over time to policy holders. These surplus estates come to around £0.4 billion.

Similarly, the PGL Group pension scheme has a surplus of around £0.1 billion. The important thing to note about these surpluses is they are not fungible within the Group, they're only available to support their own entities. For the with profit funds those surpluses are there to support any shocks that could happen to those funds, and similarly for the PGL scheme. However, whilst they are deducted they are very helpful in absorbing shocks.

So, in our year end results we split out the strong with profit funds and the PGL Group pension scheme from the calculation of our shareholder capital coverage ratio. This is similar to the approach taken by many of our peers and results in a headline coverage ratio of 154% as at the end of 2015. Our unsupported with profit funds are managed on an individual basis to ensure they maintain their surplus over the capital management policies, and as we have said whilst trying to accelerate the distribution of these estates to policyholders over time. In general, our shareholders will benefit from a 10% share in this estate distribution as it comes through via bonuses, and Rakesh will revisit this source of future shareholder value later.

In considering the resilience of the Group's Solvency II position the headline SCR coverage is only one component. The key issue is the sensitivity of this metric to economic and

demographic shocks. As you can see, from the sensitivities which were provided at the year end, the Group's Solvency II position continues to be resilient. This is partly due to the additional surpluses that I've just mentioned, but is also a function of the risk management actions that we have taken in the past.

Continuing my earlier example, we are well protected against equity falls because in the first instance the majority of the exposure is borne by policyholders within unit linked funds and strong with profit funds, and we seek to hedge out a large proportion of the residual shareholder risk as I described earlier.

The Group does have exposure to further interest rate falls which increase capital requirements. Along with our peers we have assumed that a significant fall in interest rates, which would drive up the risk margin, would lead to a recalculation of transitional provisions. For those of you who have had the joy of reading the PRA's recent consultation paper, that suggests a threshold of 50 basis points change in interest rates over a period as being a suitable trigger for a recalculation of transitional provisions, and the sensitivities that we show here are the net positions after such a recalculation.

Credit risk is also significant for the Group, arising predominantly from the direct shareholder exposure to corporate bonds. The impact of any widening in credit spreads is dampened to a certain extent by the credit assets which are held within our Matching Adjustment portfolios, and these are managed on a buy and maintain basis. Therefore, the key credit risk exposure from a capital perspective is to increase downgrades or defaults, and therefore our market stress includes an assumption of an increase in these risks.

The Group's largest individual risk exposure is to improvements in longevity on our annuity portfolios, and as I will discuss shortly this is a risk that the Group manages on a proactive basis.

And finally, we have also provided here a combined stress which considers the impact of an equity, interest rate and credit stress all occurring at the same time, and as you can see from a Group perspective the overall impact is relatively muted.

I'd like to turn now to the specific risk exposures, and this slide shows a breakdown of the aggregate Phoenix Life Holding company's SCR before any diversification benefit. The majority of our capital is held against the two main risks, credit and longevity, and I will talk about how we manage these in a moment. It is important to note at an appropriate price these risks remain attractive to shareholders.

Let me give you an example. Credit assets earn a spread over risk free, and this excess return can be compared with the marginal risk capital that we can assess through our internal model. Taking the excess return and comparing it with the marginal risk capital requirement allows us to determine what our marginal return on capital is, and that is a key metric for us in determining our actions on the book. Other risks such as operational or persistency are risks inherent to our business model and we will continue to seek to minimise these over time.

One conclusion I'd like you to take away from this slide, apart from what the relative risks are, is that Phoenix is not focused on simply minimising the capital requirements, but rather we're aiming to ensure that shareholders and policyholders are appropriately rewarded for the risk capital that they hold. And the framework that we use for this is the marginal cost of capital under our Solvency II internal model.

In closing the first of these two sections let me just return to our four distinct product types. The internal model allows us to manage these risks on a product by product basis, and as I mentioned these risks differ in profile, and the opportunities to optimise policyholder and shareholder value also varies across these groups. What our internal model gives us is the clarity on the marginal capital requirements that we need to hold and allows us to assess the potential costs and benefits of all the various management actions which we have available to us. Crucially, it allows us to accurately price M&A opportunities by giving us greater certainty over diversification benefits and future cash flows which would arise from the enlarged group.

So, having set out our Solvency II framework I'm now going to describe how we think about the management actions which are available to us and which support our cash generation targets. As you may recall from our year end results presentation we have a £2 billion cash target over the next five years, of which £500 million we are expecting to be generated from management actions.

We think about management actions broadly falling into two types: those that increase the Solvency II Own Funds, and hence increase the total quantum of cash flows emerging from the business; and those that reduce the SCR and hence allow an acceleration of the cash that would otherwise have been expected to emerge over time. We've set out on this slide some examples of management actions for each category, and as we described before we will report management actions split across these two categories in future. I would just note, there'll be a number of management actions which span across these two buckets, but we will endeavour to give you more clarity on these going forwards.

So let me give you some examples about increasing Own Funds. We could invest in higher yielding asset classes. We can continue to improve and undertake much more granular modelling of our liabilities. We can obviously reduce expenses, and we can seek to improve customer persistency. All of these examples would increase the volume of cash flows emerging and can be thought of as simply a continuation of what we have delivered in the past around increasing MCEV through management actions.

Accelerating cash flows through reducing the level of solvency capital can also be achieved in a number of ways. Examples here would include optimising our Matching Adjustment portfolios, reinsuring insurance risks – and I'm thinking here mainly of longevity – or taking further action to hedge out market risk. These examples would all reduce capital requirements and therefore accelerate the release of cash. Our overall aim is to maximise the surplus over SCR, because this is what will drive the cash generation and which can be remitted out of our life companies.

The next couple of slides are going to provide a bit more detail on some of the actions we took during the second half of last year. I described Opal Re earlier, and this reinsured certain annuity liabilities from Phoenix Life Assurance Limited, PLAL. This structure would have been inefficient under Solvency II requiring PLAL to hold additional capital against the liabilities and therefore these were recaptured. In doing so we used our internal model to analyse the marginal cost of capital for taking back this additional longevity risk within PLAL. Crucially, this was then compared to pricing that was available in the market at that time, and that led us to choose to reinsure this risk externally to a strong rated reinsurer, RGA.

In this particular situation, taking on more longevity risk with limited diversification benefits within the Group, was not economic compared to the external price that we were able to access. This action reduced the solvency capital requirements and allowed capital to be remitted to the holding companies. Part of this cash was released in 2015, and there will be further remittances as the residual assets within Opal Re are liquidated.

Given the large longevity exposure we still hold, we will continue to compare our cost of capital to the pricing that's available in the market. To be clear, we are not averse to acquiring more longevity risk as long as it is a price that appropriately rewards our shareholders for the marginal capital required.

Turning to the asset side of the balance sheet, as well as reducing the Group's exposure to longevity risk, the Group also took other actions to restructure some of its investment class portfolios in readiness for the new Solvency II regime. These broadly covered three key areas. The first was to improve our Matching Adjustment portfolios, predominantly by selling down ineligible and inefficient assets.

Secondly, we rebalanced our credit portfolios in the second half of 2015 to ensure that we optimised our return on the marginal capital deployed.

And finally, as I mentioned earlier, the move to Solvency II changed the risk free rate which we use for discounting liabilities from Gilts to Swaps. We therefore took the opportunity to sell down some of our Gilt portfolios, investing the proceeds in cash and Swaps to eliminate the basis risk. The Group had also previously protected itself from movements in the Gilts/Swap spread by using hedging instruments, and these were also unwound in the second half of 2015.

Whilst we took a number of management actions during the latter part of last year, there remain a long list of potential management actions for the Group and I have split these into four key categories. Let's start with restructuring. We still have two UK life companies, PLL and PLAL, and we will look to bring these together over time to generate some capital synergies. We are also in the process of undertaking a Part VII transfer of around £1.6 billion of annuity liabilities which are currently reinsured to Guardian.

From an operational perspective we are considering asset classes which could provide an increased risk adjusted return as well as further optimising our existing credit portfolios, and as always Jim drives us very, very hard to generate operational efficiencies and further reduce costs.

Risk management is clearly fundamental to our business model. Under Solvency II we will continue to minimise the level of unrewarded risks. Actions to optimise rewarded risks such as credit or longevity will to some extent depend upon market pricing at the time.

We will continue to work closely with our key service providers, Capita and Diligenta, on the policy administration expense side. But in addition we will also work closely with our third party asset managers, Standard Life Investments and Henderson, on implementing new asset classes, and continue to restructure our existing portfolios to optimise the capital treatment.

Staying on the asset theme, although I said that we took on a number of actions in relation to our Matching Adjustment portfolios in 2015, there is considerably more work to be done in 2016, both in terms of increasing the liabilities held within these portfolios, but also in terms of the breadth of the asset classes covered. Increasing the size of our Matching Adjustment portfolios and the yields on the assets held within them, impacts the discount rate that we can use to apply to the liabilities. This increases Own Funds and has a direct impact on the cash flow emergence from the life companies.

What we're showing on this graph is the supply of corporate bonds. It is fairly clear that it is now very challenging to source long-term credit to cash flow match the UK life markets' long-term liabilities.

Our approach is to use derivatives to duration match our annuity portfolios, noting that we will have to demonstrate tight cash flow matching for these to be eligible as a Matching Adjustment portfolio. However, what we do is we separate our investment strategy from our ALM strategy and then it allows us to focus on improving our marginal return on capital deployed.

So given that the key driver for our asset investment decisions is the marginal return on capital, we model this at a very granular level, and what I'm showing here is an example of some modelling at a credit rating and duration level.

The framework that we use for optimising our credit portfolios is what we call the Net Spread Duration, which is our measure of the marginal return on credit assets net of the Solvency II capital requirement. This allows us to analyse at an individual bond basis which ones are the most attractive for a return on capital basis.

In this particular illustration, BBB bonds appear to be most attractive with the shorter duration, but as you go out longer, this shifts towards higher rated bonds.

In addition to managing our credit portfolios, there are additional asset classes that we're considering, which may allow us to further improve our returns on capital. And these include assets, such as commercial real estate debt, infrastructure debt and local authority loans. However, in order for these to be efficient from a Matching Adjustment perspective, these assets may need restructuring. This is something we're actually doing at the moment in relation to our existing portfolio of around £300 million of equity release mortgages.

It should be clear by now that our Internal Model clearly drives how we think about management actions on our existing book. But before I close, I would just like to point out the implications for how we price and analyse acquisition targets.

The Phoenix Internal Model is PRA approved and we have robust governance structure around any changes to that. It therefore allows us to accurately understand what the incremental capital requirements would be from a target. It allows us to understand and articulate the diversification benefits and the synergies which would be available from a combination of businesses. And this gives us a platform to accurately price opportunities and understand the future cash generation from an enlarged group. This ensures that we can optimise our financing structures to meet vendors' expectations and to reward our shareholders appropriately.

So, in summary we have a robust Solvency II position, which we dynamically manage according to the risks within our product universe. We continue to be utterly focused on cash flow generation, whether that's internally generated through management actions or through appropriately priced acquisitions.

Our Internal Model gives us sovereignty over our balance sheet and that's a key benefit over many other life companies. This model also gives us a solid platform to determining the relative attractiveness of internal management actions, as well as allowing us to assess and accurately price future acquisition opportunities.

I hope on this warm afternoon this has been a helpful insight about how we manage our business under the new Solvency II regime. I'm now going to pass you over to Rakesh to talk about how we will report our financials to you in future.

Rakesh Thakrar, Deputy Group Finance Director

Thank you Simon and good afternoon everyone.

As you have just heard, Solvency II has impacted the way we think about our balance sheet, management actions and M&A. However, it has also changed our approach to our key financial indicators and how we will report our financials in future.

I am going to spend the next few minutes providing some background to these changes and how you can think about our key economic drivers under Solvency II.

As we stated at the full year results, we will not be reporting MCEV in the future. Historically, MCEV was extensively used as it was simple to understand and relevant as a valuation benchmark for M&A. More recently, due to the differing definitions and the trend towards the capital generation metrics, insurers are moving away from MCEV. The Group has always focused on cash flows as its most important financial metric, and, in future, this will be driven by the Solvency II position of the life companies.

Cash flows can be remitted from the life companies when there is Free Surplus above the life company SCR and Capital Management Policy. Free Surplus is generated from a number of sources, both as emerging surplus and from the reduction in the capital requirements as policies run off.

The shift to Solvency II will allow Phoenix to report against a more focused set of KPIs that directly influence cash flows and returns to shareholders. In the context of M&A, it will represent quantum and timing of synergies.

Simon has talked through how we calculate our shareholder capital position. However, to be able to analyse the key economic drivers within the Group, it is necessary to provide further analysis between the holding companies and Phoenix Life.

This slide sets out this split with the holding company position in blue and the Phoenix Life position in red.

From a holding company perspective, a large part of the Own Funds of £1 billion is accounted for by the £0.7 billion of cash held within the holding companies. The additional Own Funds of £0.3 billion represent the IAS19 surplus on the Pearl Group Pension Scheme and other net assets.

The SCR of £0.4 billion, held at the holding company level, is primarily in relation to the Pearl Pension Scheme SCR. In simple terms, the Solvency II surplus at the holding company level is broadly equivalent to the cash balances of £0.7 billion, less the Solvency II deficit on the Pearl Pension Scheme.

The Phoenix Life position is provided in further detail on this slide. Own Funds of £2.8 billion has been split out across the key products as follows: shareholder funds of £1 billion, which consist primarily of liquid assets. The £0.7 billion of Own Funds within the non-profit funds includes the surplus from our unit-linked, annuity and protection books. Future shareholder transfers of £0.4 billion are the future bonus declarations from the Group's strong with-profit funds.

Finally, there is also a £0.7 billion of value within the weaker supported with-profit funds, which represents the excess shareholder assets over liabilities within those funds.

With regards to the £2.1 billion of SCR, Simon has already provided some detail on how the PLHL SCR is broken down. I won't revisit those risks here again. However, it is worth

reiterating that the life companies hold an additional Capital Management Policy on top of the SCR to provide resilience at the policyholder level.

The free surplus is therefore the excess assets above both the SCR and the additional Capital Management Policy. The total Phoenix Life Free Surplus amounted to £97 million at full year 2015.

Within the product groups at the life company, transitional measures offset the changes to the calculation of technical provisions, of which the introduction of the explicit risk margin is the most important. These transitional benefits will run off over 16 years and will reflect the run off of the business over that period. However, the risk margin and other technical provisions will also run off with the business, and therefore mitigate to the impact of the loss of transitional benefits over the period.

There may be a residual headwind as the risk margin will run off slower than transitionals, although we don't expect this to have a material impact on cash flows.

Fundamental to the Phoenix business model is how value is generated by Phoenix Life and the key drivers in generating that value. This slide sets out how we expect the Free Surplus will build up over the course of a year, delivering the excess capital that is then remitted as cash flow. In future, we will report on a similar basis so that the underlying sources of value are clear for investors.

The next slide provides further detail on each of the key drivers.

So walking through each one in turn. Expected return represents the income earned, being the risk-free rate plus the assumed risk premium based on the assets backing shareholder Own Funds.

The Estate within strong with-profit funds is excluded from our shareholder Own Funds. However, the shareholder value in the Estate is broadly 10%, and as the Estate is distributed, the shareholders' share would emerge as surplus.

Management actions will generate surplus through the increase in Own Funds, reduction of capital requirements, or a combination of both. For the five year period to 2020, we expect that management actions will account for around £100 million of value per year on average.

As mentioned earlier, the risk margin may run off slightly slower than transitionals. However, this effect is not expected to be material from a cash flow perspective.

Shareholder capital requirements and Capital Management Policy is expected to run off in line with the business.

And finally, profit after tax on our service companies will also emerge as Free Surplus.

As can be seen, there are a range of value drivers that build up Free Surplus within Phoenix Life that can then be remitted as cash flow, all other things being equal. In practice, actual economic variances, experience variances and changes to assumptions and methodology will also impact Free Surplus generation. We will look to report the key drivers of Free Surplus going forward.

This slide is a reminder of how we see that cashflow emerging over time. As we set out in March, we have set a new annual target of cash between £350 million and £450 million for 2016, and a new longer term cash generation target of £2 billion between 2016 and 2020. Around 25% of this £2 billion cashflow target will be delivered through management actions, either by increasing Solvency II Own Funds or accelerating capital release.

The target £2 billion of cash flows remitted from the operating companies over the next five years will finance Head Office costs, pension contributions, debt payments and dividends.

After these uses of cash we are left with an illustrative £0.8 billion of cash at the Holding Companies at the end of 2020.

Looking forward into the future and starting with the £0.8 billion from the previous slide we have illustrated the future cash emergence over the longer term. With regards to this £3.2 billion of cash generation after 2020 we have provided some further detail on how these cashflows will emerge over time in five year buckets. We will no longer report how the value of future profits will emerge within our MCEV disclosure but this breakdown should provide a more relevant replacement.

As you expect cash generation will decline over time as the current book runs off. However it is important to remember that the amounts shown here after 2020 do not include any benefit from management actions and we have always stated the key strength of the group is to continuously find ways to add value to stakeholders and this will continue well into the future.

The introduction of Solvency II offers an opportunity to refocus the group's key performance indicators. Our future disclosure will therefore prioritise the drivers of cash generation in future and how management actions increase and accelerate cash remittances from Phoenix Life to support shareholder dividends.

Although we will no longer report Phoenix's financial leverage metric given the cessation of MCEV we intend to instead focus on ensuring maintenance of our investment grade rating.

2016 will be somewhat of a transition year as our peers and the investor community revise their financial performance and valuation metrics. Therefore we will continue to benchmark ourselves against our peers to ensure that appropriate and relevant disclosure is provided.

I will now hand you back to Jim to wrap up.

Jim McConville

Thank you Rakesh. Last November a number of you attended the Pensions' Institute talk on the report we sponsored entitled *The Meaning of Life*. Their main conclusions were that the UK new business market would be dominated by a smaller number of players that had true economies of scale. The traditional life assurance model was under threat and mid-tier players would struggle with market and regulatory changes. In addition the market was suffering from a skills shortage, in particular for older products such as with profits policies.

Phoenix sees that these pressures will lead to further new business writers exiting the UK market. Phoenix is well-positioned to benefit from this process of consolidation providing a stable and efficient platform to manage legacy books of business for the benefit of shareholders and policyholders.

I hope now that the importance of our Solvency II internal model is now clear and how we manage our existing business and analyse acquisitions. We have started this year with a strong and resilient Solvency II position and have a long list of management actions to enhance this further.

We continue to believe that there will be a number of acquisition opportunities in the future and our internal model is an essential part of our toolkit in assessing value and synergies.

Finally Solvency II reaffirms the Group's strategy of focusing on cashflows within our financial reporting. We have made a solid start to the year with regards to cash generation and look forward to continuing our track record of meeting or exceeding our publicly stated targets.

We'd now be delighted to take any questions. In the normal fashion if you could wait for the microphone to be brought to you and then give us your name and institution for whom you work we will then answer the question, or at least Simon and Rakesh will, and thereafter we'll pick up any questions on the phone or the internet.

Thank you very much.

Q&A

Question 1

Ben Cohen, Canaccord Genuity

Could I just ask on the cash generation in the period to the end of April was there any volatility in that period, if you had marked it at the end of March would it have looked very different? And could you maybe talk about how you've achieved that consistency of cash generation of what was I suppose quite a volatile period for risk assets? Thank you.

Jim McConville

Okay thank you Ben. As we've discussed before Ben our cash generation can be lumpy in any one particular period and it just so happens in this period we've got a figure of £130m which is broadly pro rata in line with the full year target range. So I wouldn't think of it as something that builds up, January, February, March, April, it is really very much influenced by the timing of the completion of various management actions.

So one of the key drivers in terms of the cash generation in the first quarter is some action we've taken in Opal Re to realise some of the residual assets that were left and that benefitted the group as well as other actions within the life companies. So I wouldn't take it as a steady progression through the course of a year.

Question 2

Ashik Musaddi, JP Morgan Cazenove

Just a few questions. First of all how should we define M&A and earnings under Solvency II because earlier you had view that the MCEV accretive, that should be dividend accretive, it should be financial leverage coming down. Now two of your metrics are now gone so what would be a mean in terms of synergy under Solvency II disclosure? That's number one.

Secondly Simon you mentioned that PRA have suggested that you have to recalculate the transitional only if it's above 50 basis points of change in interest rates, so what would be the 49 basis points - are there any thoughts on the sensitivity because clearly what UK insurance are suggesting is it's a change, shift in interest rates would be really painful so with 49 basis points you'd be paying for the transitionals.

And just one more question is what is the capital management policy on the £0.6 billion number that you showed Rakesh if you remember, £0.6 billion number above the SCR, what is that policy? Any thoughts on that. Thank you.

Clive Bannister

Ashik thank you very much there were three questions there. The first Jim if you'd tackle that was about M&A metrics and the absence of using just MCEV.

The second was about transitional recalc and perhaps Simon you'd deal with that.

And then CMP finally Rakesh if you'd deal with that one.

Jim McConville

Thank you Ashik. Just a reminder of the criteria we set when thinking about M&A first of all we've positioned ourselves as the closed life UK and Irish market, that is the best strategic fit for Phoenix at the present time and that remains the case.

Importantly we want any transaction that we do to at least sustain the dividend and give us an opportunity to reconsider the dividend. We have a stable and sustainable dividend policy and that is unchanged under Solvency II.

Thirdly we have said we want to do a financing structure for any acquisition that would maintain or improve our investment grade rating position. That remains the case it is not our intention to go back to re-levering this business up with huge amounts of debt given the journey that we've come on in the past few years to get the position more stable.

And finally we've talked about an acquisition being value accretive so the MCEV is one measure of value accretion. That was flawed for many reasons that you'll all be familiar with. For example it didn't capture service company profits and therefore wouldn't capture on day one cost synergies for example. And there are other measures which Rakesh and Simon have discussed in thinking about how a transaction translates into our own funds position and our SCR requirement.

So I think in the way that Simon and Rakesh described thinking about how a transaction translates into generating additional own funds or reducing the capital requirement and therefore in turn translating then into cash generation is absolutely key for us in terms of thinking of acquisition.

Clive Bannister

Do you want to tackle transitional calc?

Simon True

Yes actually it's a great question. Just want to illustrate one thing that Jim said right at the outset there's a number of areas of Solvency II that are not bedded down and this is a fairly obvious example. The consultation paper came out a week, two weeks ago, and it is very much a consultation paper. The industry is coming back to the PRA and the PRA will opine.

If we assume for the moment that 50 basis points is their limit there are just two other things to bear in mind. First of all my understanding is that firms will individually agree their own trigger points. That's not to say that each firm can choose one basis point as a trigger but they can choose and articulate and discuss with the PRA their own trigger points.

And then if it were to end up exactly as it were on the consultation paper and 50 becomes the limit and is absolute then that would lead to a very different hedging strategy that we would undertake. We have hedging strategies in place but that's not to say we wouldn't refine them once these rules become absolute.

Clive Bannister

Rakesh I think it was Capital Management Policy.

Rakesh Thakrar

Yes so just a reminder on the question I think the question was about what is the £0.6 billion above the SCR that's being held at Phoenix Life. So just a reminder that Phoenix Life has free surplus as at 31 December of £0.7 billion and we are holding a Capital Management Policy of £0.6 billion, giving a free surplus of £0.1 billion.

The first thing to say this is a board approved capital policy to ensure that the policyholders are protected and that the company is sufficiently above its SCR level. And the second point I'll probably make is that this is no different to what we had under Solvency I where again we had a Capital Management Policy above the capital requirements.

Clive Bannister

Ashik and when you talked also about synergies you said sources of synergy and M&A, they haven't changed, they contribute to, as Jim says, the drivers to making more cash available but two substantial ones are on capital restructurings and risk management. We always have our operating costs, the way we work with outsourcers we think about asset management; we think about our tax affairs and we think about financing.

So those are the seven broad areas where we think about sources of synergy but exactly as Jim says that then derives towards the cash metric. Oliver.

Question 3

Oliver Steel, Deutsche Bank

So three questions. The first is I'm trying to work out how to think about the £97 million of free surplus because if it is the same definition that you gave previously then I think two years ago it was more than £500 million. It then dropped to £195 million and I know that it's around the same, the old basis but when it dropped to £195 million you said that we should ignore the drop because it was on the old basis and the implication was it was better under the new basis which it clearly isn't. But you also I think halved your remittance in 2015 because it was so low.

So how should I think of £97 million now? And presumably, this is sort of half linked to that or maybe you can class this as a second question, presumably that free surplus figure is one hell of a lot more sensitive than the Solvency II sensitivities that you've given, given that most of your Solvency II surplus is in cash and the Holding Company?

The third question is I'm just trying to work out how we measure some of the things now that you're getting rid of EV. How do we check your future cash flow projection? Is that going to be audited? And how are we to second guess what the rating agencies do with your debt rating?

Clive Bannister

Fine, well there are quite a lot of questions there. Jim, would you take the first one about our free cash surplus of £97 million and how it played before, and then whether the degree of sensitivity of that number versus our other Solvency II numbers and then the question having dropped MCEV where we will stand in terms of checking cash flow and that impact on the Fitch rating, our investment grade rating that we got last year.

Jim McConville

So just going with the first question then, you're quite right Oliver, the free surplus number that we've disclosed of £97 million for the opening Solvency II position and the previous numbers we disclosed under the ICA regime have shown the capacity to move around, they have been up in the 500s, they've also been less than £97 million. And that goes back to my earlier answer, much of it is dependent on the timing of various management actions so that when it was up in the 500s that was because we'd completed, from memory, quite significant management actions in the final quarter of that year and it just so happens that they fell into that quarter.

In setting the cash generation target for the five years to 2020 and for 2016 we obviously had in mind the opening free surplus position, so that is recognised within the target when we set those targets.

Clive Bannister

And then on cash flows our sensitivity in the absence of having MCEV, I don't know if Rakesh would take that?

Rakesh Thakrar

Shall I take that one. So previously we had MCEV which showed the profile of the VIF run off. Starting from the second part of the question, was what's going to be audited, so I think under Solvency II we will be looking to have the own funds audited and that would then help drive the estimates of the future cash as I set out in my cash flows. You'd have the expected returns, you'd have the run off of capital, you'd have the management actions, and therefore that should help you get you to the number that we've put in the public domain.

And just a final point on the free surplus we have a capital management policy above the SCR but we would expect that going forward that we would have a small buffer above that policy all the time. This is going to be the way in future unlike how it was previously because we would look to extract cash above the capital management policy as it emerged.

<u>Question 4</u>

Kailesh Mistry, HSBC

I just wanted to go back to slide 22 and tie that into the holding company cash flow. Obviously the £125m that sits in Opal Re seems to be outside of the scope of the PLHL which is where I guess the Group Solvency II is calculated if I'm correct. So the question is over what time period would that £125 million come into the Group on which we see the numbers if I'm correct?

And secondly or related to that, in an M&A situation how much of that £700 million or £700 plus £125 million would you be willing to use in an M&A situation?

Jim McConville

Okay, so let me deal with these, Kailesh. So you're right, the £125 million sits outside the PLHL group and therefore is not within the £97 million surplus, so it is in addition to that. Our intention is to dispose of the assets within Opal Re and once that occurs then the amounts are then available to be passed up as cash to the holding company so the timing is very

much dependent on how quickly we can dispose of these and obviously making sure that we get a value for these disposals we would hope to make good progress with that this year.

And your second question, sorry I've just forgotten, just remind me again?

Clive Bannister

The quantity of the holding company cash.

Jim McConville

Oh yes sorry, the quantity of the holding company cash, my apologies. Yes, so we have cash on our balance sheet of £700 million approximately and as you will have seen we have a surplus above the capital management policies of about £600 million. At that Group level the £600 million surplus the only constraint on it if you like is the £150 million change in control buffer, so technically anything above that is available for whichever purpose we choose.

Now clearly we're not going to run down that to a pound over £150 million, we'll always keep a sensible buffer in there and so there could be for small acquisitions the possibility to fund that from that residual amount but my expectation would be for any decent acquisition it would be a mixture of equity and debt funding, dependent very much on delivering an answer which is consistent with maintaining the investment grade rating and not pushing up the leverage.

<u>Question 5</u>

Andrew Crean, Autonomous

Can I ask you three questions. Firstly, could you critique the extent and the way the risk margin is calculated and whether you would hope to get that reformed, assisted by the Treasury and the PRA?

Secondly, this is a slightly complicated question, but when you test corporate bond sensitivity do you assume that you get a hundred basis point spread widening across all rating categories or do you tilt it which has a more painful effect?

And then thirdly within your £0.5 billion of management actions which you've got over the next five years can you tell us how much of those are acceleration of cashflows as opposed to creation of new cashflows and will you as you achieve them tell us whether they're acceleration or additional?

Clive Bannister

Thank you very much; three questions. Simon, why don't you take the first two? The first one was the critique for risk margin and the ability with which we can lobby through the Treasury and others to get that thought about more intelligently against EIOPA essentially. Then how we think about our UK performance and the pricing therefore.

And then, Rakesh, you might estimate, and I'm sure Jim will have a thought, about the balance of that £500 million of management actions, which as Simon said, they don't fall into two separately sealed buckets, there are things that deliver both acceleration and generation. So, Simon.

Simon True

Yeah, how long have we got to critique the risk margin? I think there's maybe an agenda behind your question, or a leading question anyway at least.

It's obviously imposed upon us; it is a feature of the Solvency II regime. You may have heard many industry people speak out against it, that it's inflexible. To some extent it is an imposed calculation, it's very prescribed, and effectively, as a reminder, it's just basically projecting forward your capital requirements and allowing for a 6% cost of capital and discounting at a very low interest rate, and that gives rise to a significant number.

This is a brand new additional buffer that was not there under ICA, and, to a certain extent, when we talk about thinking about the risk margin we have to think about transitionals in the round. If risk margin disappeared tomorrow, so would a substantial part of the industry's transitionals, so these two things are very much interlinked.

Would I hope for reformation? To some extent, I think it is slightly anomalous and it seems a rather large cost of capital, and I think, it's a personal opinion, it's applied to some risks that are demonstrably hedgeable, longevity risk being one of them. But as I say, just removing the risk margin would have a knock-on impact to our transitional impact as well, so, to some extent, we're matched for changes in the risk margin.

Your second question, corporate bond sensitivities, I think I'm going to have to come back to you on that one, Andrew. We do very granular analysis of it, but I'll come back to you, if I can, about the tilting aspect to make sure I understand what your view of tilting really means, if that's okay.

Clive Bannister

Rakesh, the £500 million management actions.

Rakesh Thakrar

Yes, just to expand on Simon's point on the second one. If tilting means what is the sensitivity we've applied to our - I think it was page 17 - we've said an average 100 basis points across ratings. I think you will find that in the higher-rated ones the spread sensitivity is slightly lower, but in the lower-rated ones the spread sensitivity is quite higher. But on average, it's 100, if that was the question.

And the final point on management actions of £0.5 billion, we will report the split going forward. We will put it in the buckets at every reporting period.

Clive Bannister

Andrew, can I hand you over the mic again?

Andrew Crean

The £500 million which you currently are hoping for, does that have some acceleration from the period beyond 2020?

Rakesh Thakrar

The £500 million will be a combination of both acceleration and increase.

Question 6

Andy Sinclair, Merrill Lynch

Just one more question following on from Andrew's on the credit sensitivity. You mentioned that it also includes defaults and includes credit ratings migration. I just wondered if you could give any more colour on what you're expecting for ratings migration and defaults in that credit assumption?

Rakesh Thakrar

Yeah, I think we'll have to come back to you on that, given the detail.

Question 7

Ashik Musaddi

Hi, just one more question. On one of your slides, if I remember correctly, you mentioned that there's £700 million of capital tied up in supported with-profit funds. Can give you us some thoughts about what is that sensitive to? I mean which sorts of asset classes is it mainly sensitive to? On the Solvency I basis, if I remember correctly, it used to be £200 million/£300 million of capital support to the with-profit funds. What is the £700 million? Is it all shareholders' capital or is it partly estate included here as well? Thank you.

Clive Bannister

The question is about the capital structuring for the with-profit funds.

Rakesh Thakrar

I think the slide you're making reference to is slide 33, which has got the breakdown of the Phoenix Life Solvency II position of the £2.8 billion of shareholder Own Funds, of which £0.7 billion is related to supported with-profit funds. So those are funds which require shareholder capital and all of that £0.7 billion is part of the shareholders' Own Funds. They would be funds that would be relatively low-risk assets to ensure that they will emerge as future shareholder surplus.

Question 8

Oliver Steel

Yes, one more question from me. I don't know if you gave us this figure at the full year, but against that £1.3 billion surplus that you've got on your Solvency II position, have you actually given us a minimum target range or, indeed, a maximum figure?

Clive Bannister

This is on page 33.

Jim McConville

No, Oliver, we have never given a target solvency ratio range for anything like that. What we did say at the full year, and we continue to reiterate, is what is important to us is the absolute level of surplus as opposed to the ratio and the sensitivities to that surplus. So the ratio itself is not a key metric for us, it's the absolute number and the sensitivities.

Clive Bannister

Resilience, strong and resilient. Any further questions?

I started today by saying thank you for being here on what is a very hot afternoon, and we're proud to have ended the first quarter with the market announcement that we've made and we look forward to seeing you, for those of you who would like to come to an even hotter room in the middle of August, or the end of the August, to the announcement of our first half results.

Thank you very much for having us. Thank you very much indeed.