Phoenix Group plc 2011 Full Year Results

Friday 23rd March 2012

Ron Sandler, Chairman

Right, it's just about 9:30 according to the clock at the back, so welcome all, I'm very pleased to see you all here this morning. Thank you for joining us for the Phoenix Group 2011 Results Presentation. I have our CEO, Clive Bannister, with me on the podium today and it's a great pleasure to be introducing Paul Miles, our Acting CFO, to you today. And we're also joined by Mike Merrick and Chris Samuel, the CEOs of Phoenix Life and Ignis respectively.

Phoenix has come a long way in recent years. I'm pleased with the progress we've made towards realising the full potential of the business and as you know 2011 was our first full year as a Premium Listed FTSE 250 company. And it's pleasing to report today that we have continued to deliver on our promises during this time and that Clive and his colleagues will tell you more about this. It is the strength and predictability of our cashflows that underpin our business model and give us the confidence that we have in the long-term future of Phoenix.

As you will recall we were approached on an unsolicited basis by several parties during 2011 regarding a possible transaction with the Group and you will have seen in our announcement on the 10 February that all discussions have now terminated. The company was never up for sale but as a responsible board we're obliged to consider serious approaches. I'm pleased to report that despite some external speculation about the future ownership of Phoenix, Mike Merrick and Chris Samuel and their teams have not been in any way distracted. They've continued to focus on the efficient management of our operations ensuring that we were able to hit our financial targets for the year.

2011 was another year in which we delivered strong cashflow, incremental EV and further de-gearing and these remain our priorities as we look with confidence towards 2012. Before going further I'd just like to take a brief moment to comment on the press release that I expect you'll have seen this morning regarding my own future with the company. You will have read that I have informed the board of my intention to retire at some point later this year once a suitable successor has been found. A search process to identify my successor is now underway and I would like to stress that there is no time pressure on the board to make this appointment.

Phoenix has come a long way since I took up my appointment two and a half years ago. The company has reached a position of stability. It has a top drawer management team and effective governance, it is hitting its targets. Whilst no company's journey is ever complete I now feel that the principal elements of what I came on board to do are solidly in place and the time is approaching when it will be right for me to step aside. I have thoroughly enjoyed my time at Phoenix, the business has been transformed and I'm immensely proud of what

has been achieved. When the time comes for me to leave sometime later this year I shall do so in the knowledge that the company is in the best of hands.

And it's now my pleasure to hand over to Clive and Paul to take you through the detail of our 2011 results and after this we look forward to answering any questions that you may have. Thank you.

Clive Bannister, Group Chief Executive

Ron, thank you very much. Welcome everybody. At the end of my first 12 months as the Chief Executive of the Phoenix Group I can look back with satisfaction at 12 months of substantial achievements. And these are due to the effective combination of Phoenix Life's operational excellence and impressive asset management through Ignis, which collectively have delivered strong results despite all of the economic volatility that we have seen in the world in 2011.

Here are our financial highlights characterised as strong delivery in challenging markets. We delivered £810m of operating company's cash generation, up £76m or 10% over 2010. IFRS operating profits were strong at £387m. Our MCEV remained resilient at £2.1bn despite market turbulence. Ignis' assets under management increased by £2.5bn to £72.1bn, up a full 4%. We achieved a further reduction in leverage in the second half of 2011 bringing gearing down by 6% to 46% at year end. And we propose a final dividend of 21 pence per share bringing the total 2011 dividend to 42 pence in line with 2010. This is evidence of our continued commitment to returning value to our shareholders.

At the start of 2011 we set clear and challenging financial targets. They were to strengthen our cashflow, to deliver enhancements to our MCEV and to reduce our gearing to below 50%. It is excellent news that we have either achieved or exceeded all of these targets. Cash remains the most important measure for our business and the most relevant metric for our investors. It is good to report today that we delivered £810m of cash generation which was well within our targets of between £750m and £850m.

MCEV is the second key metric against which we measure our performance. We set the objective of the year to deliver £100m of MCEV enhancing actions. And again I am delighted to report that we have over delivered at £165m in 2011.

We also set the gearing target to bring it to below 50%. At the time of our interim results we reported that our gearing was 48%. Since then through strong organic cash generation we have managed to reduce this further by 2 percentage points to end the year at 46%. Later on I will describe the new challenging targets we are setting for ourselves and the business looking out into 2012.

Operational highlights. Once again the Phoenix Group has demonstrated that it is a business and not just a balance sheet and we continue to transform our businesses. In Phoenix Life our operational highlights included the unwinding of the internal reinsurance arrangement between our two major life companies. And we completed the fund merger of Phoenix and London Assurance into Phoenix Life which together allowed us to reduce risk and deliver shareholder value, and at the same time release cash.

We completed the transfer of over 2m policies onto a modern administration platform which is key to our strategy for cost control as our closed life funds run off over time. We also enhanced the value of our policyholders of the distributable estate by £100m through implementing best practice estate distribution across our funds whilst continuing to manage the funds in a prudent way.

We have also continued to invest in Ignis particularly by strengthening investment and distribution teams. One positive result has been that 11 out of 15 major life funds outperformed their respective benchmarks. In addition we announced our intention to outsource Ignis and Phoenix Life's investment administration to HSBC. This will improve the efficiency of the operating platform and deliver shareholder value through the reduction in operational risk.

I end with the observation that the Phoenix Group delivered on its financial promises by being a well run business. And now I'd like to hand over to Paul so that he can take you through the detailed financials. Thank you very much.

Paul Miles, Acting Group Finance Director

Thank you Clive. Morning everybody. We're very happy to report a strong set of financial results despite the economic uncertainty and market volatility. As Clive has said we achieved cash generation from the operating companies of £810m, an increase on £734m in 2010. We delivered strong group operating profits of £387m including £46m from Ignis. MCEV remained broadly flat over the year at £2.1bn with much of the adverse impact from market movement being offset by £165m of management actions. MCEV per share at the 31st December was £12.14, a 1% decline against 2010 reflecting the increase in our share capital through the scrip dividend.

Our IGD surplus increased by £0.3bn to £1.3bn at 31st December 2011 with headroom over capital policy also substantially improving by £0.3bn to £0.4bn at the year end. Ignis' strength as a manager of third party assets was demonstrated by net inflows of £1.7bn during the year which contributed to the increase of £2.5bn in total group assets under management to £72.1bn. Gearing reduced to 46% well below our target of 50% on the back of organic cash generation. And we're pleased to report recommended final dividend of 21 pence per share bringing the dividend for the year to 42 pence in line with 2010.

As we've said £810m of cash was distributed to the holding companies in 2011 versus £734m in 2010, an increase of 10%. This is against underlying recurring cashflows of around £400m per annum. Mike Merrick and his colleagues in Phoenix Life generated £778m of that cash through a combination of recurring emergence of surplus and capital releases and management actions which accelerated an impressive £359m of cash. Ignis also delivered £32m of cash to the holding companies as a result of its strong performance.

As expected, recurring cash outflows in 2011 remained in line with 2010, with £209m incurred through operating expenses, pension scheme contributions and debt interest. Non-recurring cash outflows decreased from £79m in 2010 to £24m in 2011 reflecting the non-recurrence of one-offs such as the 2010 premium listing related costs, and the fact that our business transformation projects are nearing completion.

During 2011 we repaid £171m of debt, an increase of £49m on 2010. We also paid £55m of cash to our shareholders in the form of dividends. And overall during 2011 we've grown the cash in the holding companies by £351m to £837m.

This strong performance was achieved through the acceleration of £359m of cash generation by Phoenix Life through management actions. Of this £173m was from restructuring activities, for example, we restructured a corporate loan portfolio which allowed us to capture the liquidity premium on the underlying assets. £104m related to risk management including investment de-risking, and £82m was accelerated from operational management activities such as the resolution of legacy tax issues.

Although the delivery of further management actions does get harder over time, substantial opportunities do still remain. Phoenix Life is focused on undertaking management actions which allow further cash releases to be accelerated whilst ensuring policyholders remain appropriately protected.

The opening free surplus within the life companies was £750m. This is in excess of what are already strong capital policies. As expected the market conditions, and in particular the impact of widening credit spreads and falling yields during the second half of the year, resulted in adverse investment and economic variances which largely offset the IFRS operating profit generated during 2011.

Movements in capital requirements and capital policy generated £84m of free surplus during the year. The 2010 movements benefitted from value enhancing management actions whereas in 2011 capital releases were offset by increases in capital requirements in annuity funds due to falling interest rates.

During the year, £778m was distributed from the life companies to the holding companies resulting in a closing free surplus of £93m, that's in excess of the strong capital policies. And £837m of cash held at holding companies as at the end of the year.

During 2012 to date the impact of the adverse investment variances which we saw in the second half of 2011 has to a certain extent reversed and the free surplus has increased to around £250m as at the end of last week.

We delivered strong Group IFRS operating profits of £387m compared to £373m in 2010. Phoenix Life generated £395m of that operating profit. The result was boosted by £51m from completion of data cleansing activities, and £21m from model changes where we have refined our operating profit assumptions. If you strip out these variances underlying recurring operating profit from Phoenix Life remained in the £275m to £325m range.

Ignis delivered operating profits of £46m in line with 2010 which we believe is a strong performance given the market conditions due in the second half of 2011. We're not completely immune to market conditions and as expected the impact of the turbulence in the second half of 2011 resulted in adverse investment return variances and economic assumption changes of £338m. The key drivers of the adverse variance were the impact of the widening credit spreads and falling yields relative to prudent liabilities.

The £139m amortisation charge, that's a non-cash item, which primarily relates to the acquired intangibles recognised as part of Liberty transaction back in 2009. Non-recurring restructuring and transformation costs were offset by a one-off recovery of £35m of historic costs under the management services agreements between the life companies and the service companies, as well as a £37m benefit from closing our pension schemes to future accruals. With finance costs and tax costs attributable to owners being in line with 2010 this has resulted in a loss after tax of £98m.

MCEV, remained broadly stable during 2011 despite the adverse economic variances of £309m because we were able to undertake management actions which partially offset the impact of those variances and the £123m of finance costs. We calculate MCEV operating earnings based on expected returns, the long-term risk free rate at the start of each year. As a result the 2012 MCEV operating earnings are likely to be lower to reflect the falling yields during 2011.

MCEV was £12.14 at the year end, a 1% decline reflecting the increase in the number of shares following the scrip dividend, and as we've mentioned in the past our MCEV excludes

the value of future profits from Ignis which for purposes of gearing we value at £0.4bn and including in Ignis would increase the MCEV by approximately £2 per share.

During 2011 we generated £165m of incremental embedded value through management actions. We achieved this by delivering £94m through operational management initiatives, including the migration of policies onto a new administration system and the resolution of legacy tax issues, £39m through investment de-risking and £32m from restructuring activities, which for example included the one-off recovery of historic costs under the management services agreements between the life companies and the service companies. We've made significant progress towards our target of delivering £400m of incremental embedded value between 2011 and 2014.

Our IGD excess capital representing the solvency capital within the group available to meet adverse experience increased by £0.3bn to 2011 to £3.1bn, this is primarily due to the overall positive investment returns in the main with profit funds, as well as the impact of management actions undertaken during the year which have improved the IGD surplus and headroom. The IGD surplus increased from £1bn at the start of the year to £1.3bn at 31st December 2011, and headroom over capital policy increased from £0.1bn to £0.4bn at year end.

The improvement in both these metrics reflects the impact of life company simplification actions undertaken during the year, including the unwinding of the internal reinsurance agreement between Phoenix Life and Phoenix Pensions that had an adverse treatment under IGD and also we benefited from completing the fund merger of Phoenix & London Assurance and Phoenix Life Limited.

At the time of our interim results we presented detailed analysis of the asset mix within our life companies and the level of exposure to Eurozone debt and equity securities. We've updated this analysis and you can find the detail in the appendices. Since half year '11 we're proactively worked to reduce our shareholder debt exposure to peripheral Eurozone countries from £862m to £363m, this exposure now represents 2% of total shareholder debt securities. Equally we've reduced our shareholder exposure to the sovereign debt of peripheral Eurozone from £161m at half year to £9m at the year end. We have no shareholder exposure to Greek sovereign debt or equities, and remain entirely comfortable with this level of overall exposure. All of these numbers are fully market to market and reflected in the IFRS and MCEV numbers we've reported today.

Assets under management increased by £2.5bn to £72.1bn, despite the runoff of life company assets of £4.4bn. We're very pleased to report that Ignis achieved net new money inflows of £1.7bn over the year, mainly relating to liquidity and real estate funds and a liquidity driven investments mandate from one of the group's pension schemes which was won in a competitive tender. Ignis' strong investment performance during 2011 which saw 11 out of 15 of its biggest life funds performing ahead of benchmark is reflected in the positive market movement of £5.8bn. Evidence of Ignis' forward momentum is shown by its successful new product launches, such as its absolute return government bond fund which combines innovation with attractiveness from deep demand pools.

This brings us to the end of the detailed financials, I hope you'll agree that Phoenix Group has delivered another set of strong results, demonstrating balance sheet strength despite the market turbulence of the second half of 2011. With that I'd like to hand back to Clive.

Clive Bannister

Thank you, Paul. With our financials completed I'd like to spend a few minutes describing the Phoenix Group strategy and looking forward to our targets. The Phoenix Group has a vision, it is to be the saver friendly industry solution for safe, innovative and profitable management of closed life funds alongside our leading asset management business, Ignis.

It is important to have a vision, it fixes our destination and strengthens our resolve for the journey ahead. In this slide we set out the key steps on the Phoenix Group journey which will make that vision a reality. Our focus is to re-term our debt. It is not the quantum but the profile of our debt which needs to be addressed. Aligning our debt profile to the profile of our longer term cashflows and resolving our historic covenant constraints will represent an important and necessary step forward. In parallel, and indeed over the short to medium term, we will strengthen our businesses, Phoenix Life and Ignis.

In the former our actuarial systems transformation project which is well underway goes hand in hand with the launch of Solvency II and the reporting required under the new regime. Combined, the new operating platform will ensure our existing business can be run ever more efficiently. And as Ignis improves its investment performance its objective is to win more external mandates and grow its third party business, building both profits and an independent reputation. These are the steps to deliver our vision for Phoenix.

We are very confident about the Phoenix business model. It is a compelling proposition. We are certain of our ability to harvest value for our shareholders through the inherent stable and predictable cashflows within our existing standalone book of business. We announced a cumulative cash flow target of £3.2bn from the operating companies for the period 2011 through to 2016. We reiterate that target today. But looking beyond 2016 we have a business that is expected to generate a further £6bn of cash flow in the coming years. Our focus is very firmly on ensuring that this inherent value gets delivered to our shareholders. The value proposition of the Phoenix Group lies in these cashflows.

In 2011 we reduced gearing to 46% through organic cash generation. Overall leverage has come down from 58% since 2009. That represents a 12% decline and a reduction in net debt of £1bn. These impressive statistics highlight that the debt issue before the company is not related to credit but as I said earlier, focused on the proper alignment of our debt profile to the company's longer term cashflows. We need a better symmetry between our cashflows and our debt repayment profile. In addition, through re-terming our debt we will seek to ease the covenants that cap our dividend payment capability and restrict certain aspects of our business. Re-terming our debt is our number one priority in terms of corporate activity.

The more tranquil financial market conditions since the year end, the increase in our holding company's cash and the improved IGD headroom generated during 2011 reinforces our confidence in our ability to progress these re-terming discussions, but as I have said before any debt re-terming has to be completed on terms that are sensible for all of our stakeholders. We continue to have cordial relationships with our banks. I thank them for their support in 2011 for the Phoenix Group and look forward to continuing our discussions.

I am delighted that we met or exceeded all of our financial targets in 2011 and today we set challenging targets for 2012 and beyond. We set a cash generation target for 2012 of between £500m and £600m, we expect this to be weighted towards the second half of 2012. We reiterate our previously announced cumulative cash generation target of £3.2bn from 2011 to 2016. And at the end of the year we had already achieved a gearing ratio of 46% and we now set a new target to reduce that gearing ratio to 43%, or below, by the end of this calendar year.

Finally, having delivered £165m of incremental embedded value during 2011 we reiterate our MCEV management actions target of delivering £400m of incremental embedded value by 2014.

To conclude, we have delivered a strong set of results today which demonstrate the resilience of the Phoenix Group. We remain convinced of the inherent value of this business and have a clear strategy to deliver that value to our shareholders. Our focus is to re-term our debt to ensure that we achieve the financial targets we have set ourselves and to continue to achieve operational improvements in Phoenix Life and in Ignis.

And this brings us to the end of the formal part of the presentation. Thank you very much for your engagement. I'd now like to move on to Q&A. Would you please wait for the microphone to come. If you could give us your name and the institution you represent then we'll answer the question and at the end we will catch up with any questions that may be on the phone or on the internet. Thank you very much indeed.

Question and Answer Session

<u>Question 1</u>

Ed Hawkes – Exercise 2

Ed Hawkes, Exercise 2. With £837m of cash on the balance sheet you seem to be in a good position now to renegotiate your bank debt. Perhaps you'd give us more colour of where you are on that?

Answer: Clive Bannister

Ed, thank you for that question. There's a long answer and there's a short answer, so let me start with the short answer. The company is in a stronger position this year than it was last year and I think the markets are more benign and I think that gives us confidence in the discussions that we have regarding the re-terming of the debt. If I can put some colour on that, if we look back at last year, with the best will in the world the last six months were very turbulent in the external markets and I don't think there was an appetite, it was an inhospitable environment, to engage in re-terming senior debt with banks who were worried about their RWAs.

If I look at our own company in 2011 our headroom over our IGD surplus was about £100m, so not as much firepower as we would have liked because basically a pound of debt repayment diminishes our IGD measure. And I think we also were cautious as a company, and with the full support of the board, to maintain high liquidity balances during a period of economic turbulence. So that's if I take a backward look.

If I look forward I think the world is in a different place, LTRO and other mechanisms mean that I think banks are willing to engage and entertain looking at risk weighted assets and that is a more hospitable environment in which to hold discussions. Our own headroom above our IGD surplus has gone from £100m to £400m and that just provides us with more firepower. And then finally, I think you alluded to the fact that we have more cash that has moved from £486m at the end of the last year to a number which is now £837m, and that gives us again the resources.

So I end where I began, I think the company is stronger, I think the world is in a more benign place and we look forward to seeking a re-terming. It is of course a question of getting better

symmetry, aligning our cashflows against our debt profile, it's not a question of quantum and we want to do something which is sensible for all of our stakeholders. Oliver?

Question 2

Oliver Steele - Deutsche Bank

Oliver Steele, Deutsche Bank. Just following up on that, can you give us some sort of idea as to where a sort of…if you are able to renegotiate the debt with the banks what sort of interest cover might you be aiming for in the longer term? Over what period would you be looking to re-term the debt? What sort of uplift in interest costs you might expect if you were to renegotiate anything? I don't know whether you're going to tell us any of this!

Clive Bannister

Well Oliver, I don't think you've finished yet, so we've got spread, term…

Oliver Steel

Well, at the very least you might perhaps put a little bit more colour on all of that. And then here's an easy question, how much of that £800m of cash is included in the IGD solvency?

Answer: Clive Bannister

Fine. So, I think you pre-empted my answer a little bit, I am not going to anticipate the nature of the discussions that we're talking about, but they of course include term, they include spread and other aspects. I said in my presentation we're looking forward to the easing of the covenants with regards to dividends and also some of the business covenants as well. Navigating this territory is quite complex, we wanted to do it in a manner that acknowledges that complexity and ends up with a fair deal for all stakeholders, recognising that we have been well served in our capital structure by competitively valued debt. So that's the way I'm answering the first part of your question, can I turn to Paul for the second part.

Answer: Paul Miles

So, in terms of the £800m cash and the IGD, they're essentially separate constraints, one isn't necessarily part of the other, but in terms of if we have £800m cash available we're still constrained by our IGD headroom in terms of how much we can pay down. Obviously over time we can undertake more management actions to uplift that IGD headroom to give us more capacity to enable us to pay more down going forward.

Question 3

James Pearce – UBS

Morning, James Pearce from UBS. Three questions. First of all, could you comment on how you're going to generate the EV enhancement through management actions over the next couple of years, what sort of things are you looking to do and I think it excludes the merger of the two life silos, is that still the case?

Second, can you confirm that the bank debt is still off balance sheet for the purposes of Solvency II, as best you understand it, and third, the free surplus fell to £93m, can you give

us an update on that number, how is it currently? If it did fall negative would you feel the need to put money into the life business?

Clive Bannister

Thank you. Can we do them in reverse order? Paul would you deal with the free surplus issue, and how we feel, and then perhaps touch on the EV and what our thoughts are, and then share that I think with Mike and Mike deal with the solvency question.

Answer: Paul Miles

So, starting with the free surplus, we obviously started off with a free surplus of £750m at the start of the year. In relation to our overall cash target of £3.2bn between 2011 and 2016, the intention was always to pay the majority of that down over that period, to enable us to deliver against the £3.2bn target. We've said in the past that our cashflows are resilient, but not immune to market stresses. We've obviously had a significant market stress in the second half of 2011. And that was probably in line with the sensitivities that we set out, at the half year position. So, none - obviously the market stresses came as a surprise, but the impact of it didn’t come as any surprise to us.

We've been able to reiterate our target of £3.2bn, we're still confident that we're going to achieve that. The composition is probably slightly different to what we set out before. In terms of overall of £3.2bn, we've delivered £800m of it. We've got £2.4bn left to deliver, over five years, that's £480m. We probably deliver around £400m of underlying cashflows which over the five years is about £2bn, so now within that target we are including some new management actions of around £300m to £400m.

In terms of what's left of the free surplus, and the £93m, that is still above the strong capital policies that we have, and that has increased to over £250m now. And in answer to your question, if it did go negative, then in that situation we would look to deliver more management actions, to bring that back to positive, and when it's positive, it's then that we can draw money out from the Life companies, obviously subject to the Life Company Board.

Answer: Mike Merrick

In terms of the £400m target and what's left to do, Paul's talked earlier about the kinds of categories in which the management actions were delivered in 2011, it's precisely a continuation of the same kinds of activities that would get us to the £400m. And it does not include the merger across the silos.

Sorry, to answer the Solvency II question, could I ask you to repeat the question again please?

Paul Miles

James, in answer to your question, I think you're asking where is it in terms of from an IGD perspective. It's still off balance sheet from that perspective, yes, absolutely.

<u>Supplementary Question</u>

But do you expect it to remain off balance sheet under Solvency II?

Answer: Paul Miles

We don't know the position as yet. It depends how Solvency II develops.

Question 4

Ashik Musaddi– JPMorgan

Just two questions. Can you give a split of your cashflow release, what part of that is from capital and from required capital and what part is from emergence of surplus? And second thing is, you have mentioned in your press release that you have identified some more actions so as to improve your IGD surplus. Can you give some details on what kind of actions you have identified?

Answer: Paul Miles

In terms of the cashflow, we won't give you a split between the two elements. We tend to give guidance around the overall underlying cashflow, and we've said that's around £400m per annum. And in terms of the IGD actions, a good example would be the funds merger that we're currently undertaking, that will drive additional IGD benefits, which is the funds merger between NPI and PLL.

Question 5

Toby Langley - Barclays

I've got three questions. One again on the free surplus. That recovered, I think in the release you said by about £200m or so. How much of that is market versus organic capital generation? The second question is, on your Ignis valuation, can you tell us what growth rate assumption you've got in the assets that drives that? And then the cleansing one-offs in the IFRS, can you go into a bit more detail about what they are, or what is it you're cleaning?

Answer: Paul Miles

The free surplus improvement, the majority of that is market related. It's narrowing of credit spreads and the slight improvement in the yields. Sorry, I didn't catch the Ignis question.

Toby Langley

So, you value Ignis about 15 times earnings, so what growth rate have you got in there, and your assumption?

Answer: Paul Miles

It's essentially a VIF valuation, so it's our discounted future forecasts. We're not going to give you a growth assumption in that.

Toby Langley

You can't give me that?

Answer: Paul Miles

No.

Toby Langley

What's the discount rate applied on that then?

Answer: Paul Miles

I'll have to come back to you on that one, I can't remember off the top of my head.

Answer: Mike Merrick

The example of the cleansing, so Clive talked earlier about two million policyholders that had been moved from one policy platform to another. As part of that process, we necessarily go through and validate all of the data that's on our policy administration systems. And simply, we found 18 million of policy liabilities that had already been paid out, so could be removed from it; so cleaning of the data. In that way.

Toby Langley

So it's finding liabilities that you just don't need to recognise anymore?

Answer: Mike Merrick

Yes. And we will be doing future migrations of a similar nature in future years, but obviously that book that's now gone across, that's been cleaned up now.

<u>**Question 6**</u>

Andrew Crean –Autonomous

A couple of questions. Given the improvement in the environment this year, with the LTROs improving IGD surplus, and as you say more cash, would that change your attitude to unsolicited approaches? I mean you can listen to them, you don't have to. And secondly, a hypothetical question. If you - as and when you do re-term, can you give us some sense as to what sort of dividend payment you would be thinking of, related to the £400m of sustainable cashflow per year, so that we can get some sense as to where the yield would settle?

Answer: Ron Sandler

Well, maybe I can take the first one. I don't think it's possible to give a blanket policy in terms of how one would respond to any unsolicited approaches. Certainly any change in the environment doesn't cause us to think in advance about how we might respond. We will obviously treat any approach, should an approach ever be received, on its merits at the time. But I think the important point in all of this is that we are very confident in the future of this Group as a standalone entity, and we are not seeking any approach. We are certainly not going out and looking for any form of corporate activity. And I very much expect that the Group will continue to prosper under its own steam going forward.

Answer: Clive Bannister

Thank you. Ron, I completely agree with that comment. The second question about what would be our dividend policy going forward, in the event that we, and when we achieve a re-terming. That's quite hypothetical. Our dividend policy is set by the Board, and it's done in

the context of the Group's own capital position and liquidity. So I am not going to go and forecast a dividend policy looking forward to the future. Are there any more questions?

Question 7

Trevor Moss - Berenberg Bank

I think a couple of questions. Firstly, in the event that you are able to deliver a reconstruction of your bank facilities, are you quite happy that the debts, other loans, would be able to be maintained above the holding company level, from an IGD perspective? That's the first question.

Secondly, in the event that you were able to pull the two silos of bank debt together, so that you would have the Life companies underneath that single bank silo, if you like. Is there any additional constraint on what you could do in terms of further management actions between those two Life Fund silos? Or would that effectively facilitate some fund mergers within that process?

Answer: Clive Bannister

Can I answer the question, first of all you said twice if it is our intention to find a re-terming, because we expect to do that with our banks. And so I just wanted to make that very clear. The second point was to do with the restructuring of our two silos and can I hand that over to Paul?

Answer: Paul Miles

So I think you're saying, if we could put them together, is there any other constraint, in terms of what we can then do in terms of fund mergers, and the answer to that, I don't think there is. So I think it is the banks that are the main constraint. Obviously other than the usual processes that you need to go through as part of a Part 7 Transfer. And then your first question around the IGD and where does the debt sit. As I mentioned earlier, we still don't know from a Solvency II perspective, but there is nothing to lead us to believe at the moment that it would be treated any differently from how it is currently.

Trevor Moss

But I guess the original debt being above the holding company level from an IGD perspective was effectively something that was signed off by the FSA?

Answer: Paul Miles

Yes.

Trevor Moss

I'm trying to figure out whether you need to have, effectively, preapproval from the FSA before going ahead and merging those silos, or whether you can engineer a bank reconstruction and then apply to the FSA to approve it, effectively, to maintain it in the position where it is. Because clearly, if it had to move down into a more normalised structure, that would problematic.

Answer: Paul Miles

I think it would be fair to say, it's in - our interest is in the FSA interest. It's ultimately in the bank's interest for us to do a re-terming, so I don't see any reason why they would want to do anything to prevent that.

Answer: Ron Sandler

We certainly don't see the FSA as representing any constraint on what we might wish to do in terms of the balance sheet of the Group.

Question 8

Barry Cornes - Panmure Gordon

Just one question on Ignis, if I may. You mention about rationalising the back-office and outsourcing. I just wondered if you could tell me what sort of cost savings you'd anticipate from that? And also leading on from that, whether or not, what the long term outlook would be for offices such as your Glasgow office in Ignis?

Answer: Chris Samuel

There's not insignificant financial benefit from the outsourcing. I take you back to some of the earlier comments. It's in fact outsourcing two things, both the investment accounting for the Life companies, as well as the back-office for Ignis. In fact most of the financial benefit accrues in this transaction to the Life Company, so there won't be any significant impact over time on Ignis. And the outlook for Glasgow is the same as I've said in the past, which is that we're very excited about a dual centre model, and we will continue to have an important presence in Glasgow and an important presence in London.

Answer: Ron Sandler

Are there any questions coming over from the internet?

Answer: Paul Miles

There's one question on the internet or on the phone.

Question 9

Marcus Rivaldi - Morgan Stanley

Good morning everybody. I've got three questions please. Firstly, now the FSA has given its guidance on liquidity swaps, what is your view of those as an attractive route to boost investment returns, and what is the appetite that you're seeing within banks post-LTRO?

Secondly, on longer term, your leverage guidance, you always talked about leverage in line with an investment grade rating. Can you give some more clarity please as to how further maybe leverage could fall below that 43% post the end of this year?

And then just finally one quick question for Ron please. I'm just trying to understand a little bit about why is he now is the right time to be looking to passing the baton on? Obviously given recent change over in the senior management team?

Chris Samuels

Ron, do you want to do that first?

Answer: Ron Sandler

Certainly. There's very little that I can add to what was in the statement, or indeed to my earlier remarks. The Group has come an extremely long way in the two and a half years since I joined the Company. I'm proud of what has been achieved. I think a position of stability has now been achieved, which is such as to allow me to be able to retire. You will know, or you may know, that I left Paternoster and Northern Rock when these companies were sold, so Phoenix is my sole residual core commitment and my retirement really is simply closing this particular chapter in my career. And I do so in the knowledge that the Group has laid very strong foundations to achieve whatever it needs to achieve to realise the vision that Clive set out earlier.

Answer: Clive Bannister

Ron, thank you. Marcus, let me answer your second question about leverage guidance, that you were looking for. Let's look at the direction of travel that we have come along, and we talk about that 12% reduction in leverage since 2009, to 46%; and our target to get down to 43% or better this calendar year, and that the journey travelled is about £1bn in reduction of our net debt. And that is evidence of the strength of our organic cashflows, and we intend to continue to do just that. So we don't have an idée fixe about what it should be. We would like to get to the point where we have tradable debt, subordinated debt, because that gives us more flexibility going into the future. So, it's the direction of travel which we're very clear about, rather than a fixed amount of leverage. But I hand the question over in part to Paul, and also ask him to deal with the liquidity swaps issue.

Answer: Paul Miles

So, I wasn't going to add anything in terms of leverage, other than it is obviously a long-term goal for us. In terms of the liquidity swaps, obviously the FSA have come out with some guidance in the last few weeks, and we've been in the press over the last few months about demonstrating an interest to undertake a liquidity swap transaction. We are still looking at the announcement from the FSA in terms of what it is we want to do. There clearly is still appetite out in the market, and obviously if we do something, we will announce something going forward. That was it really on liquidity swaps.

Marcus Rivaldi

Just a quick follow up on that last one. Is there any sort of guidance you can give on what you would hope in terms of returned enhancement you could achieve through these sort of transactions?

Answer: Paul Miles

Well, it's - the market does move quite quickly in this, and the type of transaction we're potentially looking to do, we're reviewing what it is in light of the FSA guidance. It's difficult to comment on that at the moment.

Answer: Clive Bannister

Lucie, are there any more questions? Anymore questions from the floor? One over here.

<u>Question 10</u>

Marcus Barnard - Oriel Securities

Just a quick question. Are you intending to maintain the scrip dividend for the foreseeable future?

Answer: Ron Sandler

We certainly are intending to maintain it for this particular dividend. We're not giving any further guidance in terms of future dividend policy.

Clive Bannister

I think that brings to the end the formal session. My colleagues and several of my colleagues in the audience will happily stay around and have coffee and answer any more detailed questions you may have. Thank you very much for your engagement, I end where we began, it's an extraordinary business, a compelling business model, that looks out into the future with great comfort about being able to deliver the cashflows that we've talked about. Thank you very much indeed for your time.