Phoenix Group Holdings – Half Year Results

Thursday 22 August 2013

Clive Bannister – Group Chief Executive

I intend to start by welcoming you again to our 2013 Interim Results presentation. I'm pleased to be here today to present our results. It has been a transformational period for the Group, supported by strong financial performance in the first half. I'm joined on the podium by Jim McConville, our Group CFO, as well as Mike Merrick and Chris Samuel, CEOs of Phoenix Life and Ignis respectively.

Before we start the presentation I'd just like to say that we are of course very aware of the interest in our discussions with Swiss Re in relation to a possible combination of Phoenix and Swiss Re's business unit Admin Re, which we announced on 12th July. I am not – and I repeat not – able to give you any update today on those discussions other than to say that they are ongoing and that we will update the market as and when appropriate.

The first half of 2013 was important for the Phoenix Group. In February, we completed the capital raising and debt re-terming in which we raised £250m of new equity, reduced our gearing and strengthened the Group both financially and strategically. Our financial performance for the first half has been good, and we have made considerable progress towards our stated full-year financial targets. As a result we have declared an interim dividend of 26.7p per share. This represents an increase of 27% compared with the 2012 interim dividend and is in line with the 2012 final dividend.

We set ourselves targets against three financial metrics: cash generation, incremental MCEV and gearing. Our target range for cash generation for 2013 is £650m to £750m, and I am pleased that we have already delivered £416m. This obviously puts us in a strong position to meet our targets for the full year.

In total over the course of the last two and a half years we have already achieved £1.9bn of cash generation towards our target of £3.5bn between 2011 and 2016.

MCEV is the second key metric against which we measure our performance. By the end of June 2013 we had delivered £384m of additional value through management actions, towards our £400m cumulative target from 2011 to 2014.

And on gearing, as of 30 June, we had reduced our gearing ratio to 48% as a result of a capital raising and re-terming towards our stated 40% target by the end of 2016.

We are naturally prudent in our target setting, and we will revisit existing targets if appropriate.

Across both Phoenix Life and Ignis we have worked on the transformation of operations and building a better business. The legal process to transfer the £5bn of policyholder annuity liabilities and related assets across to Guardian is progressing well, and we expect completion to take place towards the end of the third quarter this year.

Through our Actuarial Systems Transformation we have continued to streamline and harmonise the actuarial modelling of the various legacy books of business onto a single platform. This is now reaching its final stage, and we will be parallel running the new system by the full year.

The Phoenix Life and Ignis Investment back office outsourcing arrangements with HSBC are continuing to progress. In addition over 3.2 million of our policies, which are managed by Diligenta, have now been migrated onto the new BaNCS administration platform, making policy administration more efficient and giving customers access to their policies online. We continue to work with our outsourcers to limit transfers to Pension Liberation Fraud schemes, which can have punitive tax consequences for unsuspecting or naïve policyholders.

And finally Ignis has continued to win third party mandates. It has done particularly well with growing its Absolute Return Government Bond fund, supported by international sales. This fund has now reached and has exceeded £1.1bn of funds under management. Overall Ignis has maintained investment outperformance across 73% of its assets under management.

We have a robust sustainable and scalable operation in both Phoenix Life and in Ignis. And I'm pleased to say we have made good progress in developing these further, alongside the balance sheet restructuring, during the first half of 2013.

I'd now like to hand you over to Jim.

Jim McConville – Group Finance Director

Thank you Clive. Good morning everyone.

We set our here the key numbers. I'll take you through each of the key metrics in more detail shortly, but in summary:

We had cash generation of £416m. Good IFRS operating profits. MCEV at £2.2bn. Our Group capital positions remain robust. Our gearing reduced to 48% through the capital raising and debt re-terming. Our assets under management are down slightly on the year-end position, reflecting the natural run-off of the life company assets. And we have a 2013 interim dividend of 26.7p per share, in line with the 2012 final dividend.

Free surplus represents the excess capital over and above the strong capital policies in the life companies. It is the amount which is available for distribution to the holding companies. We started 2013 with £514m of surplus, and I'm pleased to report free surplus generation during the first half of £303m. This broadly falls into three areas:

IFRS operating profits net of tax, less the impact of economic variances and non-recurrings, totalling £104m. £150m from the run-off of capital requirements, as well as the impact of increasing yields on the capital requirement. And a further £49m of valuation differences, including the release of legacy provisions and other smaller movements.

We distributed £411m of cash to the holding companies leaving £406m of free surplus in the life companies.

Now turning to cash generation. When we entered into the reinsurance arrangement with Guardian in 2012 we released £252m of capital into free surplus. This has now been distributed to the holding companies. It formed part of the £416m of total cash generation during the first half. We remain on track to achieve our 2013 cash generation target of between £650m and £750m. The net proceeds of the capital raising of £211m are of course in addition to this target.

Debt interest costs, which include the Tier 1 coupon, increased during the period as a result of the increased coupon under the amended facility agreement, and included £20m in relation to interest rate swaps on the bank debt which expire later this year.

We have reduced our bank debt by £535m since the end of 2012 to £1.8bn. This includes the £450m Impala prepayment, £60m of amortisation on the Impala facility, and an annual amortisation of £25m on the Pearl facility.

And finally we paid out £60m in respect of the 2012 final dividend of 26.7p per share.

At 30th June, almost £1bn of cash remained at the holding companies.

In the first half of 2013 Phoenix Life operating profit was £178m, which includes £24m from management actions, such as the release of legacy provisions following balance sheet reviews and capturing tax benefits from the funds merger of London Life and Phoenix Life Assurance Ltd. A further £19m arose from positive experience and assumption changes, including improved margins on the annuity book, favourable longevity experience as well as longevity assumption changes to bring the assumptions in line with the latest mortality tables.

The fall in operating profits compared with last year reflects the lower level of management actions on an IFRS basis versus 2012, as well as the impact of the annuity transfer, which reduced the annuity book by around 40%. Ignis operating profits were maintained at £19m.

Below the operating profits line, we incurred adverse investment variances of £33m. This was driven primarily by the adverse IFRS impact of rising equities due to the short equity positions implemented to optimise our economic capital position. These more than offset the positive variances we saw coming through from yields rising.

Non-recurrings include the arrangement and structuring fees on the re-terming of £21m, as well as other transformation and restructuring costs. And we incurred £65m of finance costs, slightly up on last year, reflecting the amended Impala facilities and the cost of the interest rate swaps. And finally after tax we generated a loss of £8m.

We set out here the key movements in the Group assets under management position over the first half. At 31st December 2012 Group assets under management totalled £68.6bn. A total of £2.7bn of life company assets ran off during the period; but this was partly offset by net inflows of £900m from third parties. Within this increasing sales of the Absolute Return Government Bond fund, including higher international inflows, offset a slight fall in liquidity inflows. In additional a net £200m of assets associated with the Group’s 2012 annuity transaction with Guardian also returned to Ignis. Market movements of £100m reflected the volatile credit markets during the first half. And at 30th June we had Group assets under management of £67.1bn. The remaining £1.1bn of Guardian assets are expected to transfer back to Ignis during the second half.

Since 31st December 2012 Ignis' third party assets under management have increased by 9% to £13bn, which now represents over 20% of the Group's assets under management, taking into account the remaining Guardian assets. The growth in the liquidity fund, which is now one of the largest in the UK, and the Absolute Return Government Bond fund, has been impressive. Importantly our third party assets generate higher margins than the life company assets, with a blended rate, excluding the liquidity fund, of 36 basis points in the first half. This compares to an average of 16 basis points earned on the life company assets. Ignis has continued to deliver returns in excess of benchmark. The Absolute Return Government Bond fund has performed particularly strongly, and over one year it has outperformed its relevant benchmark by over 5%.

The sterling liquidity fund has delivered returns above its benchmark. And the property fund has also achieved top performance over the last five years compared to a peer group of comparable funds. And overall these metrics point to a growing third party franchise which has been built on Ignis' key capabilities.

Now turning to look at MCEV. We set out here the material movements in MCEV over the year. For clarity we have shown the value generated from management actions separately and all of the movements are presented net of tax. So moving from left to right: we generated post tax operating earnings of £93m. This compares to £104m in the first half of last year with the decrease primarily a result of the lower long-term risk free rate. We delivered £52m of incremental value through a number of management actions including the investment of excess liquidity in credit and super national bonds, capturing tax benefits from the fund merger of London Life into Phoenix Life Assurance Limited due to a change in the taxation profile and basis; and the release of legacy provisions following balance sheet reviews.

Below the line economic variances on non-recurring items totalled negative £15m in 2012. This primarily reflects the adverse impact of rising yields and differences between short and long-term rate assumptions offset by positive variances from rising equities and narrowing credit spreads.

We also show here the change in the market value of our Tier 1 and Tier 2 bonds. We treat both of these as a liability at their market value within MCEV so when their market value increases the MCEV is adversely impacted. The impact of this in the first half of 2013 was £58m on Tier 1s and £14m on the Tier 2s. And finally we incurred finance costs including the Tier 1 coupon and the amended Impala facility of £84m and paid dividends of £60m.

At the end of the June the Group MCEV was £2.2bn representing MCEV per share of £10. And clearly this excludes any value from the future profits from the service companies and Ignis which represent additional significant source of value to the Group.

Moving on to Group capital. As a reminder we look at our Group solvency position on two bases: the IGD which is a Pillar 1 assessment of the Group's capital resources and requirements; and the PLHL ICA which is a Pillar 2 assessment of the Group's capital resources and requirements. The IGD is currently the biting Group solvency calculation. At 31st December on a pro forma basis for the capital raising and debt re-terming the IGD surplus and headroom were £1.2bn and £0.4bn respectively. The surplus reduced slightly to

£1.1bn during the first six months of 2013 due to the payment of shareholder dividends, bank debt repayments and other outgoings at the holding companies but our headroom over capital policy remained at £400m.

The position remains relatively insensitive to market conditions. The legal transfer of the annuity assets and liabilities through Guardian is well progressed and as previously announced we would expect an increase in the IGD headroom of around £200m on completion of this Part VII process.

And now turning to look at the Pillar 2 position. The PLHL ICA remains strong with £1bn of surplus and £800m of headroom over our capital policy. During the first half of 2013 the surplus position improved by around £200m. This includes £400m of improvements in the capital position, both within the life company free surplus, which I mentioned earlier, and in respect of the pension scheme where modelling improvements have allowed capital to be released. This was offset by £200m of external payments at the holding companies in respect of bank debt, the Tier 1 coupon and shareholder dividends. And as a result of the management actions undertaken during the second half of 2012 the position remains relatively insensitive to market movements.

And finally turning to dividends. We increased our final 2012 dividend by 27% to 26.7p per share. And as Clive mentioned we are pleased to have declared a 2013 interim dividend also of 26.7p. I'd now like to hand you back to Clive.

Clive Bannister

Thank you, Jim. I am delighted that we have already made such a good progress towards our financial targets for 2013. As a reminder we set them out here below. We have a long term cash generation target of £3.5bn between 2011 and 2016 and an annual cash generation target for 2013 of between £650m and £750m. Having already delivered £384m of incremental embedded value between 2011 and the 30th June 2013 we are very confident in our ability to achieve our cumulative target of £400m in the four years to end 2014.

Finally, we reiterate our target to reduce our gearing to 40% or below by the end of 2016.

So to conclude, we've announced a strong set of results today and look forward, with confidence, to the future for the Phoenix Group as the saver-friendly solution for the safe, innovative and profitable management of closed life funds. We think this is evidenced in five ways. First our ability to sustain significant levels of cash generation over the long-term is enhanced by the predictability of our actuarial modelling across six million policies.

Second we have the skills and expertise within our life company to manage complex legacy products accelerating the release of capital and realising significant value through management actions. And we have the infrastructure in terms of outsourced policy administration and streamlined actuarial modelling to continue to deliver value from our in-force business.

Third we have put in place a capital structure with financial optionality and have a clear guide path to continue de-gearing.

Fourth we have an asset manager with a growing third party franchise which stands in good comparison versus the industry in terms of net inflows in the first half of the year; and which continues to benefit both policyholders and shareholders from their investment outperformance.

And finally we can now examine the options for growing the closed life business. It is clear to us that the opportunities exist and we believe Phoenix is well positioned to benefit from them in the future.

Before we begin the Q&A session I'd like to say a few words about our departing non-executive director. You may have seen our Chairman's announcement this morning that after eight years of association with Phoenix Hugh Osmond has decided to stand down from the Board with immediate effect. Hugh has been a valued member of the Board, and on behalf of the Executive Management and the Board, I would like to thank him for his contribution and wish him well for the future.

This brings to the end the formal part of the presentation. Thank you very much for your engagement. I'd like now to move into the question and answer session. As always, would you wait for the microphone to be brought to you; will you be kind enough to give us your name and institution for whom you work and then we will answer the question. At the end of the session here we will also answer any questions that may be on the internet or on the phone. Thank you very much indeed.

Question and Answer session

Question 1

Jon Hocking – Morgan Stanley

I've got three questions please. Firstly on the comment about taking more credit risk in the liquid assets if you could give some more colour on that please, particularly are these liquid assets within life companies, or is this including the hold co cash? That's the first question.

Second question: on the investment variances you mentioned the equity variances but it was bundled up with other variances I wonder if you could give us the gross equity variance? And then also a comment on the structure of the hedging programme do you still need that with market levels where we are or is it a sort of collar structure how does that work?

And then finally on the annuity assets you mentioned that the £1.1bn is coming back in the second half, could you give some comments on the phasing of that between 3Q and 4Q? Thank you.

Answer: Clive Bannister

Thank you very much for the three part question there: credit, equity variances and annuity assets, Jim, may I ask you.

Answer: Jim McConville

So the first question dealing with the credit risk. The movements were within the life companies and we took action to transfer what was surplus cash and transfer them into some supra national bonds and so on which earned a slightly higher yield. So it was part of an action of a programme that they have underway to look at the optimisation of our assets under deployment and it made sense from a capital perspective and a work perspective for us to do.

In relation to the investment variance we hold an equities short position to protect us from a fall in equities and we are protecting the position on our Pillar 2 basis; so we're effectively taking into account the value of in-force assets and the surpluses coming out of the with-profit funds. So what you find in that position is broadly hedged. So what you find on an IFRS basis because the liabilities don't take into account obviously the value of in-force and so on, you have a mismatch and therefore we get that mismatch coming through that IFRS result. But we believe the important thing to do is for the hedge to work economically, which it does, and therefore we're prepared to take that IFRS position.

And finally on the timing of the return of the remaining Guardian assets I believe it's in the third quarter, as Chris tells me.

Answer: Chris Samuel, Chief Executive, Ignis Asset Management

That's the plan.

Question 2

Ashik Musaddi – JP Morgan

A couple of questions. First of all UK market is seen to be more favourable towards annuities now. Everyone is saying to look to grow in annuities so can you just comment about your remaining annuity portfolio which is around £5bn, do you still to reinsure or think about that or are you happy to keep that risk on your balance sheet?

Secondly on your cash target like £650m to £750m on second half you're basically required to do £300m of cash and you are there at your target. But you still have £400m of free surplus in your life companies so how should we think about your cash target; is there likelihood that your full year cash will be a bit higher than your target. Do you plan to increase the target near-time? Thank you.

Answer: Clive Bannister

Thank you for your two questions. I'm going to ask Jim to answer the first one about our targets and how we feel about those. And then perhaps Mike you would deal with the annuities and how we feel about our position in the business and our comfort with them on the balance sheet.

Answer: Jim McConville

Okay thank you, Ashik. As you say we've made a good start to the cash target of £650m to £750m for 2013; so we've £416m as of the half year. And as you point out the free surplus within the life company at that half year point was round about £400m. I think as we've referred to in previous presentations we always take a prudent and considered view in terms of cash distributions up from the life company, so that whilst technically there is the full amount of free surplus available at the point in time when the distributions are made up from the life company underwriters will take into account the outlook and so on. And you shouldn't expect your every last pound of free surplus to be distributed up in that period.

Answer: Mike Merrick, Chief Executive, Phoenix Life

So in terms of the annuities last year we wrote £1bn of annuity business and in the first half year we wrote about £400m. I think we continue to write that on terms that we feel comfortable with and on terms that we feel give a reasonable return for customers. I think there are various challenges out there as to the annuity business, but we are anticipating, for example, in the ABI Code of Practice on encouraging customers to look at the alternatives they've got with other providers. But I think we're comfortable continuing to write the volume of business that we're writing at the moment. I think it's important to also stress that a lot of the annuity business also comes from policy holders have got guaranteed annuity rates, so that's around half of the business comes from people exercising these guarantees, and that's not likely to be going anywhere.

Answer: Clive Bannister

Part of your question actually asked whether we were comfortable with the amount of annuities that we have. Absolutely. Does it afford our opportunities for future management actions as we have done before? Yes. And that is something as part of the portfolio of management actions that we review on an annual basis.

<u>Question 3</u>

Andy Hughes – Exane BNP Paribas

Obviously you can't talk about speculation of what may and may not happen, but I'm just wondering if you could give me some data about your own portfolio that might help me speculate a bit about what might happen. The first one is, when I look at the sensitivities in the MCEV there's no kind of expense numbers or sensitivity in here. I'm just wondering if you were to merge with another business, how variable your cost base would be in that scenario?

The second question would be about mix of risks that drive the capital of the business, so what are the main risks driving the ICA? My view would be to try and go away and compare those to any other merger partner that you may do and see what synergies you may be able to extract in future. So those two pieces of information would be very interesting, thank you.

Answer: Clive Bannister

Well, I'm just checking the Appendix where we show our exposure and our sensitivity to MCEV, and that's Appendix 9. So actually Jim, I'm going to hand it to you, because the broader question is about how we look at our sensitivity to MCEV, and then aspects of risk and ICA, and obviously our ICA position is substantially stronger than it's ever been before.

Answer: Jim McConville

So interesting question Andy, as always, from you. Obviously I can talk about the structure of the cost base as it stands to date. I cannot possibly speculate one way or another what a cost base might be in the future with another partner or not. But as you know, one of the things we've tried to put in place in terms of our cost model is, to ensure we have that flexibility to deal with the book maturing, and the outsource arrangements that we have, which cover quite a large percentage of our operating cost base, are in fact totally variable. Therefore as the number of policies reduces you see that cost declining, and that provides us very significant protection against a fixed cost nature of the book.

In terms of the remaining costs, we pay a very close attention to cost control, and as you would expect, a quite rigorous basis of forecasting and management for those costs, and it's fair to say, I think, in terms of the potential risks that the business faces, there is less risk, I think, from costs going out of control. I don't think that is a major risk to the business.

In terms of the second part of your question in terms of where does the risk lie, the largest parts – and Mike may want to come in here as well – but the largest part of risks remain in the credit book where we have credit assets, then it would be yields and then equities and then property, in that order.

Answer: Mike Merrick

I would add longevity to that.

Further question

On the expense point, the hypothetical scenario you were to merge with someone else, does your response mean that there wouldn't be any expense synergies, or would there be a renegotiation, or what would you expect to happen? Thank you.

Answer: Clive Bannister

A very hypothetical question Andy, and it does entirely depend. In May when we had the opportunity to talk about how we saw opportunities, we talked about that acquisitions would be coming in a variety of ways, books of businesses, businesses etc. So I think it is I'm not saying an unfair question, but very hypothetical, depending on what one was doing. Jim, would you add any more to that?

Answer: Jim McConville

Yeah, well I think we do have a scalable model, if that's what you were getting at.

<u>Question 4</u>

Marcus Barnard – Oriel Securities

Two questions – possibly related. Firstly, on the net life company run-off of £2.7bn over the half year, can you say a little bit more about that; is that the sort of normal level we should expect going forward, or is it impacted by any sort of anniversary dates, maturity dates would mean it's unusually high?

Secondly, on Ignis profits, just looking at the drivers there, I see the revenue from the life funds fell from £48m to £43m. Is that very much linked into the run-off from the life companies, or is there any other factors going on there that could explain that? Because I note Ignis' profits were flat, which would seem to be most driven by that factor. Thanks.

Answer: Clive Bannister

Ignis' profits were £19m, as you said, and reflects the same period this time last year, and typically profits have been back-ended because of the performance fees which were included, which are accrued in the third and fourth quarter. So that's just an overview comment. Jim, do you want to take the point about whether the net life company run-off has been accelerated, and then Ignis profitability, the trade between £43m and £48?

Answer: Jim McConville

Yes, I'll do the third one first. In terms of the Ignis profitability. The transfer of £5bn of assets to Guardian means both the assets and therefore revenue which were previously classed as life company, are now included within third party. That was the primary reason for the reduction, in addition to the natural run-off of the book in the income that you see. And in terms of the £2.7bn run-off – we typically see £4 - £5 billion of run off a year. Last year it was £4.7 billion. The run off in the first half of 2013 was inflated by closing out some in-the-money derivative positions which meant collateral was returned, and therefore artificially increased the level of run-off to some extent. I don't think there's anything particularly untoward about that.

Question 5

Oliver Steel – Deutsche Bank

Just one question really, although it'll come in two parts. As you say, your ICA surplus is the strongest I think we've ever seen it, £800-odd million above your target, and you've taken specific actions to deliver a positive surprise on that front. So I suppose the first part of the question is, can you just take us a little bit in slightly more detail as to what those specific actions were, because I'm not sure if I totally understand what you've done.

And then the second question is, the biting constraint as you say is still the IGD surplus. What can you do there? And are you looking at ways to improve that, other that the £200m from the Part VII?

Answer: Clive Bannister

Well I was going to say in part you answered the second part of your question by saying apart from the event we expect to happen in the third quarter, which is the Part VII, and we've given indication that that will be contributing about £200m, adding to the headroom over surplus which is currently at £400m. Before I ask Jim to answer the first question on ICA, Mike, the progress of the Part VII is as we expect?

Answer: Mike Merrick

Yes, we're going to court in September and should be concluding at the end of September.

Answer: Clive Bannister

So Jim, I guess it's the ICA and then whether there's anything else in addition other than the management actions that we work on an IGD.

Answer: Jim McConville

So if we look at the full year 2012 position for the ICA, we started with a surplus of around £1bn. Now that dropped by £200m as a result of the combination of the equity raising and the debt prepayment that we announced in February, to get to the pro forma opening position of £800m. That then improved by a couple of hundred million, largely from updated longevity profiles for our pension schemes which came through, which we were then able to build into our modelling. And from the surplus which emerged from the book and the economics in the first half of the year, which was another couple of hundred million, to take that surplus up to £1.2bn. There was then deducted from that the dividend payments and the target amortisation debt payments and the like, to bring us back down to the £1bn.

Now the major thing that we referred to in terms of improving the ICA is, if you go back in time – Oliver you will recall – that the half year 2012, the surplus on the ICA was much,

much smaller, and the action we took in the second half the year related to the Pearl pension scheme where in conjunction with the Trustees we implemented a different asset mix, and implemented quite a significant amount of hedging. The net impact being that the capital requirements of the pension scheme reduced quite significantly and that gave us a benefit of around £300m.

Now in general, looking at both ICA and IGD, and looking at our management actions in particular, we have this ongoing programme of management actions which is regularly refreshed, and if you like it's a rolling pot of ideas which changes on a dynamic basis. Now we look at all of these ideas across all the key metrics that you would expect, and that includes both ICA and IGD, so we are continually looking for opportunities to improve both capital measures as well as generate embedded value and so on. So there is a long list of ideas that's we've constantly got which will look at all those metrics.

<u>Question 6</u>

Jon Hocking, Morgan Stanley

Can I just follow up on the pension scheme? In the ICA modelling, are you valuing the pension scheme on a full buy out basis, or are you doing it on a sort of stress contributions basis? And then could you give some idea of how much of the capital absorption, did sort of for the PLHL level is for the pension scheme?

And then secondly on Ignis, the third party assets. Could you give us an asset mix in terms of how much is fixed income and how much is equity? Thank you.

Answer: Clive Bannister

I want Jim first and then Chris on the second.

Answer: Jim McConville

So the PLHL ICA calculation, what that picks up basically is the Pillar 2 surplus within the life companies, and then takes into account the assets and liabilities outside of the life companies within the holding company structure. So the major liability that exists outside the holding company structure that gets taken into account is the pension scheme, and the pension scheme capital requirements are a reflection of the stressed value of the contributions.

Answer: Chris Samuel

The mix of the third party AUM is just over 80% fixed income solutions, and I include liquidity in that, about 10% real estate on the balance spread across some equity and multi-manager products.

<u>Question 7</u>

Andy Hughes – Exane BNP Paribas

Sorry, one more quick question. Post-RDR lapse rates and how they've moved, and whether that's a good thing or a bad thing for you if they've declined? Thank you.

Answer: Clive Bannister

Mike, I think that's a question for you, lapse rates in general, and then post-RDR. I think I know the answer but ...

Answer: Mike Merrick

No material changes, is the answer.

Answer: Clive Bannister

Very stable indeed.

<u>Question 8</u>

Manish Bakhda – Citigroup

Just one question to do with a comment in the press release regarding opportunities for growing the business further. Just wondering if that was referring just to the Swiss Re discussions, or were there any other opportunities that you are looking at at present? Are these bolt-on or transformational? Thank you.

Answer: Clive Bannister

The comment is specifically not referring to Swiss Re, it is entirely in line with what we said at the full year announcements in March, when we took the opportunity to say that having completed our re-terming successfully, it gave us the opportunity to think about growth of our corporate actions. In that presentation we looked at the UK market and we thought that there were in excess of £200bn of closed life funds. We are clearly a very plausible counterparty in terms of thinking as by way of a new owner for some of those funds. We think there are three possible types of vendors: UK insurance companies; foreign insurance companies in the UK; or banks in the UK that have books of businesses that are no longer writing. We think that the market is moving on. As much as there's a trapped capital argument, there's a cost to those current owners in terms of the increasing cost of administration, they may not have our scalable cost advantage. And of course there's a regulatory oversight in making sure that those policy holders are well treated, and we believe that that is our business and that's what we spend our time doing.

So we made a general point that we think there are opportunities that exist in the UK Anglo-Saxon market, for which we are well positioned to take advantage should they emerge, and we're committed to doing a lot of thinking about that.

Any further questions on the internet?

Concluding comments: Clive Bannister

So this is a wrap-up, thank you very much indeed for your time. A strong set of results. We delivered on cash. MCEV went up. Gearing is on course for our target in 2016 to be at 40%. And we announce the dividend, as we have done. So thank you very much indeed for your time. Take care.