Phoenix Group Holdings: Q3 2013 Interim Management Statement 25 October 2013

Phoenix Group Holdings announces YTD cash generation of £734 million, on track to achieve the top end of its 2013 cash generation target of £650 - £750 million

Financial and operational highlights

- £434 million of cash generation[1] in the 9 months to 30 September 2013 (HY13: £416 million). Total Holding Company cash[2] of £799 million at 30 September 2013 (HY13: £966 million).
- A further £300 million has been generated from the life companies during October 2013, resulting in total YTD cash generation of £734 million vs. 2013 target of £650 - £750 million.
- Estimated IGD[3] surplus and IGD headroom both remained stable at £1.1 billion and £0.4 billion respectively at 1 October 2013 (HY13: £1.1 billion and £0.4 billion).
- Estimated PLHL ICA[3] surplus increased by £0.2 billion to £1.2 billion at 1 October 2013 (HY13: £1.0 billion).
- Estimated Phoenix Life free surplus, which represents excess capital over the life companies' minimum requirements and the capital policies, increased by £324 million to £730 million at 1 October 2013 (HY13: £406 million).
- Gained Court approval for the previously announced legal transfer of £5 billion of annuity liabilities to Guardian Assurance Limited ('Guardian'), effective 1 October 2013[(4)].
- £1.4 billion of net third party asset inflows generated by Ignis in the 9 months to 30 September 2013. In addition, during Q3, the remaining £1.1 billion of assets relating to the annuity transfer transaction with Guardian have been transferred back to Ignis for investment management.
- Total Group Assets Under Management of £68.7 billion at 30 September 2013 (HY13: £67.1 billion).
- Agreed to sell BA (GI) Limited, which holds the Group's remaining general insurance business to National Indemnity Company, a subsidiary of Berkshire Hathaway. The disposal is subject to regulatory approval and is expected to have a marginally positive impact on the Group's MCEV.

Ongoing discussions with Swiss Re
Discussions regarding a possible combination of Phoenix Group and Swiss Re's UK Admin Re Business Unit are progressing. If successful, the transaction is expected to result in Swiss Re holding a minority shareholding in Phoenix Group. There can be no certainty that these discussions will lead to any transaction or any certainty as to the terms upon which any such transaction might proceed. Further statements will be made if and when appropriate.

Clive Bannister, Group Chief Executive, commented:
"Phoenix has extended its strong financial performance into the second half and I am delighted to confirm today we are on track to achieve the top end of our 2013 cash generation target and remain confident in our ability to meet all the other financial targets we have set ourselves. "

Financial overview

Cash generation

Holding Companies'[2] cash flows	**9 months to 30 Sept 2013 £m**	**9 months to 30 Sept 2012 £m**	**FY 2012 £m**
Cash and cash equivalents at 1 January	1,066	837	837
Cash receipts			
Cash receipts from Phoenix Life	427	272	661
Cash receipts from Ignis Asset Management	7	27	29
Total cash receipts	**434**	**299**	**690**
Operating expenses	(26)	(26)	(37)
Pension scheme contributions	(89)	(43)	(50)
Debt interest	(108)	(87)	(115)
Debt repayment	(565)	(103)	(165)
Shareholder dividends	(120)	(36)	(73)
Proceeds of capital raising net of fees	211	-	-
Total non-recurring cash outflows	(4)	(6)	(21)
Total uses of cash	**(701)**	**(301)**	**(461)**
Cash and cash equivalents at end of period	**799**	**835**	**1,066**

Cash receipts

£434 million of cash was received by the holding companies in the 9 months to 30 September 2013, with a further £300 million received subsequently from the life companies in October 2013, following legal completion of the annuity transfer.

Cash uses

Pension scheme contributions of £89 million as at 30 September 2013 include £70 million of contributions to the Pearl pension scheme in accordance with the revised funding schedule agreed in H2 2012.

During Q3, agreement was reached with the Trustee of the PGL pension scheme regarding the triennial valuation. The 30 June 2012 valuation was agreed at £(39) million on a funding basis, with a contribution schedule of £15 million p.a., payable on a monthly basis until August 2017 (FY12: £25 million).

The debt interest and debt repayments reflect the amended facility agreements and include the £450 million prepayment made in H1 2013.

Although the 2013 interim dividend payment date was 3 October, the cash was paid out of the Group on 30 September, and is therefore reflected in the holding company cash outflows for the nine months to 30 September 2013.

Capital(4)

Phoenix Life Free Surplus

The Phoenix Life free surplus, which represents excess capital over the life companies' minimum requirements and capital policies, increased by £324 million to £730 million at 1 October 2013 (HY13: £406 million), primarily as a result of the completion of the legal transfer of the annuity business, which became effective on 1 October. Since 1 October, £300 million of the free surplus has been distributed to the holding companies as cash.

IGD

Overall, the estimated IGD surplus and headroom remained stable at £1.1 billion and £0.4 billion respectively as at 1 October 2013 (HY13: £1.1 billion and £0.4 billion respectively).

The IGD surplus and headroom increased by £0.2 billion as a result of the completion of the legal transfer of the annuity business. This increase was offset by shareholder dividends, debt repayments and debt interest costs.

PLHL ICA

The estimated PLHL ICA surplus increased by £0.2 billion to £1.2 billion at 1 October 2013 (HY13: £1.0 billion). As a consequence, the estimated PLHL ICA headroom also increased to £1.0 billion at 1 October 2013 (HY13: £0.8 billion). The position increased by £0.2 billion largely as a result of the legal completion of the annuity transfer, which was partly offset by shareholder dividends, debt repayments and debt interest costs.

Ignis

Total Group Assets Under Management were £68.7 billion at 30 September 2013 (HY13: £67.1 billion), of which 21% are now third party assets.

Ignis generated net inflows from third parties of £1.4 billion in the 9 months to 30 September 2013, of which £0.5 billion have been generated since HY13, largely driven by strong sales of the Absolute Return Government Bond Fund. In addition, during Q3, the remaining £1.1 billion of Guardian assets, which had been subject to transitional arrangements, transferred back to Ignis.

In the nine months to 30 September 2013, third party inflows (including Guardian assets returned to Ignis) and positive market movements have offset the natural run-off of the closed life funds.

Financial targets

The Group is on track to achieve the top end of its 2013 cash generation target range of £650 - £750 million, and is confident in meeting its long term cash generation target of £3.5 billion between 2011 and 2016.

The Group reiterates its other financial targets of £400 million of incremental MCEV between 2011 and 2014, and gearing of 40% by 2016.

Notes

1. Cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, bank interest and other items.
2. The cash flow analysis is presented for the holding companies above the operating companies and includes Phoenix Group Holdings.
3. Any references to IGD and PLHL ICA relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking. Calculations as at 1 October, being the effective date for the Part VII of annuity business to Guardian.
4. Capital positions are stated as at 1 October 2013 to reflect the impact of the court approval for the legal transfer of £5 billion of annuity liabilities to Guardian, which was effective as at 23:59 on 30 September 2013, and therefore treated as 1 October 2013 for solvency purposes.

Enquiries

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Further information

- A conference call for analysts and investors will take place at 9.30am (UK time) today.
  The dial in number is +44 (0) 20 3059 8125.
  Please quote "Phoenix".

  Access to the audiocast, with the facility to ask questions, will also be available via our website www.thephoenixgroup.com. A replay will be made available on the website.

- Financial calendar 2013

Full year 2013 results	26 March 2014
Q1 2014 IMS	1 May 2014

- The financial information contained in this announcement has not been audited or reviewed by the Group's auditors.

Forward looking statements

This announcement in relation to Phoenix Group Holdings and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements about the

Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that we have estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the planned 'ICA+' regime and ultimate transition to the European Union's 'Solvency II' on the Group's capital maintenance requirements; impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties, including joint ventures; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements within this announcement. The Group undertakes no obligation to update any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.