Phoenix Group Holdings: Q3 2012 Interim Management Statement 31 October 2012

Phoenix Group Holdings announces cash generation of £299 million in the 9 months to 30 September 2012, and a further £218 million of cash generation in October. The Group remains on track to meet all of its 2012 financial targets.

Financial and operational highlights

- £299 million of cash generation[1] in the 9 months to 30 September 2012. Total Holding Company cash[3] of £835 million at 30 September 2012 (HY12: £710 million). A further £218 million was generated during October, primarily from the life companies.

- Estimated IGD[2] surplus and IGD headroom both increased by £0.2 billion during Q3 to £1.4 billion and £0.6 billion respectively at 30 September 2012 (HY12: £1.2 billion and £0.4 billion).

- Estimated PLHL ICA[2] surplus increased to £614 million at 30 September 2012 (HY12: £0.4 billion). Estimated PLHL ICA headroom also increased to £464 million at 30 September 2012 (HY12: £250 million).

- Estimated Phoenix Life free surplus, which represents excess capital over the FSA minimum requirements and the life companies' capital policies, remains robust at £692 million at 30 September 2012 (HY12: £566 million).

- £2.9 billion of net third party asset inflows generated by Ignis in the 9 months to 30 September 2012, including £1.5 billion of assets relating to the annuity transfer transaction with Guardian announced in June, which were subsequently transferred back to Ignis for investment management. Total Group Assets Under Management of £67.9 billion at 30 September 2012 (HY12: £71.6 billion).

- Gained Court approval for the transfer of the business of London Life Limited to Pearl Assurance Limited, now renamed Phoenix Life Assurance Limited. Since the time of the Group's Premium Listing in July 2010, the number of UK life companies has been reduced from seven to three, thereby simplifying the Group structure and enhancing the Group's capital strength.

- A total of 3 million policies have now been migrated onto the new policy administration system, BaNCS. The remaining 180,000 policies which are moving onto the new system are expected to be transferred during Q1 2013.

- On track to meet all 2012 financial targets, comprising
  - operating companies' cash generation of £600 – £700 million,
  - annual incremental MCEV enhancements of £100 million on average in the period from 2011 – 2014 and
  - gearing of 43% or below.

Clive Bannister, Group Chief Executive, commented:

"I'm very pleased to report another solid set of results, showing continued progress in cash generation, strengthened group solvency, and net asset inflows into Ignis from third parties. The completion of the

transfer of the business of London Life to Phoenix Life Assurance Limited (formerly Pearl Assurance), represents another step in simplifying the group's structure and enhancing our capital strength.
We are on track to meet all of our financial targets for the full year and remain confident of achieving a reterming with our banks in due course."

Financial overview

Cash generation

Holding Companies'[3] cash flows	**9 months to 30 Sept 2012 £m**	**9 months to 30 Sept 2011 £m**	**FY 2011 £m**
Cash and cash equivalents at 1 January	837	486	486
Cash receipts			
Cash receipts from Phoenix Life	272	485	778
Cash receipts from Ignis Asset Management	27	18	32
Total cash receipts	**299**	**503**	**810**
Operating expenses	(26)	(35)	(52)
Pension scheme contributions	(43)	(32)	(35)
Debt interest	(87)	(79)	(122)
Debt repayment	(103)	(108)	(171)
Shareholder dividends	(36)	(29)	(55)
Total non-recurring cash outflows	(6)	(15)	(24)
Total uses of cash	**(301)**	**(298)**	**(459)**
Cash and cash equivalents at end of period	**835**	**691**	**837**

£299 million of cash was received by the Holding Companies in the 9 months to 30 September 2012. A further £218 million has been received subsequently, primarily from Phoenix Life following the court approval of the transfer of the business of London Life Limited to Phoenix Life Assurance Limited (formerly Pearl Assurance Limited).

Phoenix Life now comprises three UK life companies: Phoenix Life Limited in the Impala silo, and Phoenix Life Assurance Limited (formerly Pearl Assurance Limited) and National Provident Life Limited in the Pearl silo. Since the time of the Group's Premium Listing in July 2010, the number of UK life companies has been reduced from seven to three, thereby simplifying the Group structure and enhancing the Group's capital strength.

We continue to focus on restructuring, risk management and operational management activities which will accelerate cash generation and enhance MCEV during the remainder of 2012.

Having distributed £517 million of cash from the operating companies to the Holding Companies by the end of October, the Group is well on track to meet its cash generation target for the full year of £600 - £700 million.

Capital

Phoenix Life Free Surplus

The Phoenix Life free surplus, which represents excess capital over the FSA minimum requirements and the life companies' capital policies, remains robust at £692 million at 30 September 2012 (HY12: £566 million). This includes £192 million of excess capital which it has been possible to release to free surplus as a result of the transfer of the business of London Life Limited to Phoenix Life Assurance Limited (formerly Pearl Assurance Limited).

IGD

The estimated IGD surplus increased by £0.2 billion to £1.4 billion at 30 September 2012 (HY12: £1.2 billion). The estimated IGD headroom also increased by £0.2 billion to £0.6 billion at 30 September 2012.

The increases in the IGD position were primarily driven by the completion of the transfer of the business of London Life Limited to Phoenix Life Assurance Limited (formerly Pearl Assurance Limited), which became effective following regulatory and court approvals, offset by debt financing costs. The initial IGD benefit gained from the implementation of the annuity transfer reinsurance arrangement announced in June is also reflected in the position at 30 September 2012.

PLHL ICA

The estimated PLHL ICA surplus increased to £614 million at 30 September 2012 (HY12: £0.4 billion). As a consequence, the estimated PLHL ICA headroom also increased to £464 million at 30 September 2012 (HY12: £250 million). The increases are primarily due to the London Life business transfer, the ICA refresh and positive market movements, offset by debt financing costs.

Ignis

Total Group Assets Under Management were £67.9 billion at 30 September 2012 (HY12: £71.6 billion). The decrease since 30 June 2012 is largely driven by a transitional arrangement relating to the Group's £5 billion annuity transfer transaction to Guardian announced in June.

Ignis secured the investment management mandate for the whole £5 billion; however, £3.5 billion of the assets are temporarily with a third party manager as part of the transaction's implementation arrangements. The majority of these assets are expected to transfer back to Ignis during the remainder of 2012.

Ignis generated net inflows from third parties of £2.9 billion in the 9 months to 30 September 2012. This includes £1.5 billion of Guardian assets which have already transferred back to Ignis and are now classified as third party.

In the nine months to 30 September, excluding the impact of the transitional arrangement pertaining to £3.5 billion of Guardian assets, third party inflows and positive market movements have largely offset the natural run-off of the closed life funds.

Notes

1. Operating companies' 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. Any references to IGD and PLHL ICA relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
3. The cash flow analysis is presented for the Holding Companies above the operating companies and includes Phoenix Group Holdings.

Enquiries

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Further information

- A conference call for analysts and investors will take place at 10.30am (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 2012 results	22 March 2013
Q1 2013 IMS	3 May 2013

- 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 European Union's "Solvency II" requirements on the Group's capital maintenance requirements; the 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.