PHOENIX GROUP

Phoenix Group Holdings: Q1 2014 Interim Management Statement 1 May 2014

Phoenix Group Holdings announces cash generation of £235 million in the three months to 31 March 2014

Financial and operational highlights in the three months to 31 March 2014

- £235 million of cash generation[1] in the 3 months to 31 March 2014 (3 months to 31 March 2013: £410 million). Total Holding Company cash[2] of £1,197 million at 31 March 2014 (FY13: £995 million).

- Estimated IGD[3] surplus of £1.2 billion at 31 March 2014 (FY13: £1.2 billion). The impact of the Ignis divestment and subsequent debt repayment is expected to be broadly neutral on the IGD surplus.

- Estimated PLHL ICA[3] surplus of £1.3 billion at 31 March 2014 (FY13: £1.2 billion). The impact of the Ignis divestment and subsequent debt repayment will reduce the PLHL ICA surplus by £0.1 billion.

- Estimated Phoenix Life free surplus, which represents excess capital over the minimum requirements and the life companies' capital policies, of £363 million at 31 March 2014 following distribution of cash to Holding Companies (FY13: £529 million).

- £1.1 billion of net third party asset inflows (excluding liquidity funds and Guardian assets) generated by Ignis in the 3 months to 31 March 2014 (3 months to 31 March 2013: £0.2 billion). Group Assets under Management of £69.3 billion at 31 March 2014 (FY13: £68.6 billion).

- Cash generation includes the completed divestment of BA(GI) Limited, the Group's residual general insurance business, to National Indemnity Company for £21 million on 18 March 2014.

- Announced the divestment of Ignis Asset Management to Standard Life Investments for £390 million on 26 March 2014. Completion is anticipated by the end of the second quarter subject to receipt of regulatory approvals.

- On track to meet all financial targets, comprising
    - operating companies' cash generation of £500 – £550 million in 2014 (excluding Ignis divestment proceeds), and £2.8 billion between 2014 and 2019 (including Ignis divestment proceeds);
    - cumulative incremental MCEV enhancements of £300 million in the period from 2014 – 2016; and
    - gearing reduced to 40% by end of 2016, which is expected to be achieved following the completion of the divestment of Ignis, based on the pro forma position as at 31 December 2013.

Clive Bannister, Group Chief Executive, commented:

"We have continued our strong 2013 performance into the first three months of 2014, delivering a further £235 million of cash generation. We are on track to meet our full year cash target. The regulatory approval process for the divestment of Ignis is progressing and we anticipate the completion of the transaction by the end of the first half of the year. We remain fully focused on our policyholders with further actions taken during the first quarter aimed at the continued improvement of service and performance. We look forward to engaging with the FCA review on the fair treatment of long-standing customers in life insurance and believe our initiatives demonstrate best practice in this area."

Financial overview

Cash generation

Holding Companies'[2] cash flows	**3 months to 31 March 2014 £m**	**3 months to 31 March 2013 £m**	**Full Year 2013 £m**
Cash and cash equivalents at 1 January	995	1,066	1,066
Cash receipts			
Cash receipts from Phoenix Life and sale of BA(GI) Limited	232	409	794
Cash receipts from Ignis Asset Management	3	1	23
Total cash receipts	**235**	**410**	**817**
Operating expenses	(8)	(8)	(34)
Pension scheme contributions	(4)	(8)	(96)
Debt interest	(17)	(22)	(147)
Debt repayment	-	(450)	(696)
Proceeds of capital raising net of fees	-	211	211
Other non-recurring cash outflows	(4)	-	(6)
Shareholder dividends	-	-	(120)
Total uses of cash	**(33)**	**(277)**	**(888)**
Cash and cash equivalents at end of period	**1,197**	**1,199**	**995**

£235 million of cash was received by the Holding Companies in the 3 months to 31 March 2014. The strong cash generation in the first quarter was driven largely by dividends from the life companies, together with £21 million of consideration received from the sale of BA(GI) Limited and other receipts.

On completion of the Ignis divestment, a debt prepayment totalling £250 million of the Impala facility is expected to be made out of the total cash consideration of £390 million.

Capital

Phoenix Life Free Surplus

The Phoenix Life free surplus, which represents excess capital over the minimum requirements and the life companies' capital policies was £363 million at 31 March 2014 (FY13: £529 million). The movement during the period reflects the distribution of cash to the Holding Companies, partially offset by emerging surplus and favourable economic variances.

IGD

The estimated IGD surplus and IGD headroom remained stable at £1.2 billion and £0.5 billion, respectively at 31 March 2014 (FY13: £1.2 billion and £0.5 billion). The estimated impact of the Ignis divestment and subsequent debt repayment is expected to be broadly neutral on the IGD surplus and IGD headroom.

PLHL ICA

The estimated PLHL ICA surplus increased slightly by £0.1 billion to £1.3 billion at 31 March 2014 (FY13: £1.2 billion) and the estimated PLHL ICA headroom was stable at £1.1 billion at 31 March 2014 (FY13: £1.1 billion). The estimated impact of the Ignis divestment and subsequent debt repayment will reduce the PLHL ICA surplus and PLHL ICA headroom by £0.1 billion.

Ignis

Total Group Assets under Management were £69.3 billion at 31 March 2014 (FY13: £68.6 billion).

Ignis generated net inflows from third parties (excluding liquidity funds and Guardian assets) of £1.1 billion in the 3 months to 31 March 2014 (3 months to 31 March 2013: £0.2 billion), driven by strong Absolute Return Government Bond Fund sales. Net liquidity outflows totalled £0.2 billion during the quarter (3 months to 31 March 2013: £0.7 billion outflows).

Financial targets

Cash distributions to the Holding Companies tend not to be evenly spread throughout the year as they depend on the free surplus within the life companies and the timing of management actions. However, having generated £235 million of cash in the first quarter, the Group is on track to meet its cash generation target for the full year of £500 - £550 million (excluding the Ignis divestment proceeds), and its long term cash generation target of £2.8 billion between 2014 and 2019 (including the Ignis divestment proceeds).

The Group remains on track to achieve its other financial targets of £300 million of incremental MCEV between 2014 and 2016 and gearing of 40% by 2016. The gearing target of 40% is expected to be achieved following the completion of the Ignis divestment and subsequent £250 million debt prepayment of the Impala facility, based on the pro forma position as at 31 December 2013.

Regulatory update

Following the FCA's confirmation that they would be undertaking a thematic review of the fair treatment of long-standing customers in life insurance as part of their 2014/15 business plan, Phoenix has yet to receive further details in relation to the scope of the review. However, based on the FCA's public statements in relation to the review, Phoenix reiterates the following observations:

- The FCA has stated that the review will not consider the suitability of historic advice, nor will it require a review of individual policies.

- The review will look at the level of servicing provided to policyholders whose policies are managed within closed life funds. Phoenix welcomes this review as we continue to look for areas where we can deliver better levels of customer service. We have achieved significant policy administration migrations to newer and better systems resulting in improved customer service. We regularly review our full product set to ensure it is operating as intended and remain committed to maintaining our focus on the governance of our products.
- Phoenix does not write new products (other than vesting annuities) and therefore we do not believe that any review of cross-subsidisation (in particular of the cost of new products) would be relevant to Phoenix.

Phoenix believes that the ongoing efforts of the Group to improve the performance and service for our policyholders are a clear demonstration of best practice within the closed life fund market. We look forward to actively engaging with the FCA review.

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. 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.

Enquiries

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Further information

- A conference call for analysts and investors will take place at 9.30am (BST) today.
  The dial in number is +44 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 2014

Half year 2014 results	21 August 2014
Q3 2014 IMS	23 October 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 and other financial and/or statistical data 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. Such forward-looking statements and other financial and/or statistical data 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 the Group has 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 ultimate transition to the European Union's "Solvency II" Directive 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; 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 and other financial and/or statistical data within this announcement. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this announcement or any other forward-looking statements or data it may make or publish. Nothing in this announcement should be construed as a profit forecast or estimate.