PHOENIX GROUP

Phoenix Group Holdings: Q3 2011 Interim Management Statement 8 November 2011

Phoenix Group delivers resilient financial and operational performance

Phoenix Group, the UK's largest specialist closed life consolidator, has generated £603 million cash from its operating companies in the year to date. Despite difficult market conditions, Life Company free surplus generation is consistent with a full year result within the £750-850 million cash generation target range, the IGD surplus has been maintained at £1.1 billion since the half year and assets under management are broadly unchanged at £68.3 billion.

Financial highlights at 30 September

- **£503 million Holding Companies cash receipts in nine months to end-September 2011, plus £100 million transferred subsequently (Q3 2010 £364 million)**
- **Holding Companies closing cash and cash equivalents strengthened to £691 million - more than doubled since Q3 2010**
- **Life Company free surplus generation consistent with the £750-850 million full year target for cash generation**
- **Estimated IGD surplus sustained at £1.1 billion and headroom over capital policy of £0.3 billion, unchanged since half year results**
- **Assets under management sustained at £68.3 billion (30 June 2011 £68.5 billion)**
- **£1.1 billion net new third party money in Ignis (9 months to 30 September 2010 £1.0 billion)**
- **On track to deliver full year MCEV management actions of £100 million**
- **Achieved early delivery of target for sub-50% gearing level by end of 2011**

Operational Highlights

- **Completed migration of London Life policies to modern administration platform**
- **Successful Court hearing on next stage of funds merger programme**
- **Estate distribution adds 3-10% to policyholder payouts in certain funds**
- **Winner of Melcrum SCM Award for Excellence in Employee Engagement**

Clive Bannister, Group Chief Executive, commented:

"Although not immune to market conditions, Phoenix has a resilient business model with predictable long-term cash flows. We have a deep well of expertise in risk, restructuring, operational and outsourcing management, which enables us to accelerate cash generation. Ignis, our asset management business, was successful in sustaining assets under management throughout a period of severe market volatility.

"The Phoenix Way of managing closed life funds has enabled us to generate free surplus in the Life Companies consistent with meeting our £750-850 million cash target whilst sustaining our IGD surplus at £1.1 billion despite the challenging external environment."

Financial overview

Cash generation

Despite challenging market conditions, management actions completed and in hand are maintaining free surplus within the life companies at a level which is consistent with the Group's published £750-850 million cashflow target for the full year. £603 million has been received by the Holding Companies in the year to date, including £100 million since 30 September 2011.

- **Cash and cash equivalents in the Holding Companies have more than doubled since 30 September 2010 to give very strong liquidity buffers.**

Holding Companies'[4] cash flows (£ million)	**9 months 2011**	**FY 2010**	**9 months 2010**
Opening cash and cash equivalents in the Holding Companies at 1 January	**486**	**202**	**202**
Operating companies' cash generation			
Cash receipts from Phoenix Life	485	708	339
Cash receipts from Ignis Asset Management	18	26	25
Total receipts of cash	**503**	**734**	**364**
Uses of cash			
Recurring cash outflows			
Operating expenses	(35)	(45)	(26)
Pension scheme contributions	(32)	(38)	(38)
Debt interest	(79)	(123)	(81)
Total recurring cash outflows	***(146)***	***(206)***	***(145)***
Total non-recurring cash outflows	(15)	(79)	(70)
Uses of cash before debt repayment and shareholders dividend	**(161)**	**(285)**	**(215)**
Debt repayment	(108)	(122)	(22)
Shareholder dividend	(29)	(43)	(20)
Total cash outflows	**(298)**	**(450)**	**(257)**
Closing cash and cash equivalents in the Holding Companies	**691**	**486**	**309**

Management actions

In current market conditions, the Group's pipeline of management actions provides flexibility to further accelerate cash, increase solvency capital and enhance MCEV. £89 million of cash acceleration management actions have been achieved in Q3, relating to investment and operational de-risking. Further management actions are in the pipeline and include additional de-risking activities, fund restructuring and operational management.

Capital

The estimated IGD surplus and headroom over capital policy at 30 September 2011 were unchanged from 30 June at £1.1 billion and £0.3 billion respectively, demonstrating the resilience of the balance sheet that has been delivered over the last two years.

Assets under management

Assets under management were £68.3 billion at 30 September 2011 (31 December 2010 £69.6 billion; 30 June 2011 £68.5 billion). The movement was driven by the run-off of the closed life book, almost entirely offset by net new third party money and investment gains on fixed interest assets. Net new third party money in Ignis over the 9 month period was £1.1 billion (9 months to September 2010: £1.0bn).

Shareholder[5] exposure to Peripheral Eurozone sovereign and financial institution debt

Sovereign debt exposure has been reduced from £161 million to £47 million, reflecting reduced exposures in Italy (from £113 million to £21 million) and Spain (from £46 million to £25 million). Financial institutions exposure has also been reduced from £319 million to £142 million, of which around £70 million is accounted for by the reclassification of certain holdings from Spain to the UK to better reflect the geographical exposure.

Operational overview

Policy migration to modern administration platform

Phoenix has now transferred over 2.2 million live policies from legacy administration platforms to the modern administration platform, BaNCS. In Q3, London Life policies were migrated from four separate legacy systems, completing the migration of the former Pearl business.

Funds merger programme

Phoenix has now commenced the Court process for the proposed transfer to Phoenix Life Limited of all the business of NPI Limited. This is expected to complete in early 2012.

Estate distribution

The Company continues to distribute surplus assets in line with the "Phoenix Way" of with-profit management. This benefits with-profit policyholders in a number of funds, including several of the larger funds. The impact, for those funds which are able to make estate distributions is typically to increase payouts by between 3% and 10%.

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.
2. Gearing is calculated as net shareholder debt as a percentage of the sum of Group MCEV, net shareholder debt and the present value of future profits of Ignis. Net shareholder debt is shareholder debt (including hybrid debt) less Holding Companies cash and cash equivalents.
3. Any references to IGD relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
4. The cash flow analysis is presented for the UK Holding Companies' above the operating companies and includes Phoenix Group Holdings.
5. "Shareholder" exposure to peripheral Eurozone includes non-profit and supported with-profits.
6. Nothing in this announcement should be construed as a profit forecast.

Enquiries

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Further information:

A conference call for analysts and investors will take place at 8.30am (UK time) today. Dial in number is +44 (0) 20 3059 5845. 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 2011:

  Full year 2011 results — 23 March 2012

- 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.