

## **2013 Q3 Interim Management Statement**

**Friday 25 October 2013**

**Clive Bannister, Group Chief Executive**

Good morning everybody, thank you, Jo, for attending today's call. My name is Clive Bannister and I am the Chief Executive of the Phoenix Group and I welcome you to our Third Quarter Interim Management Statement call.

I'm joined here today by Jim McConville, our Group Finance Director and Katherine Jones, Head of Investor Relations. We will be happy to answer your questions in a few minutes, but first I would like to take you through the highlights of our third quarter announcement which we released this morning.

First, cash generation. In the first nine months to September 30th we distributed £434m of cash from the operating businesses to the holding companies. A further £300m was distributed at the start of October following completion of the previously announced Part VII transfer of £5bn of annuity assets and liabilities to Guardian. And after our normal cash outflows and the capital raising and debt repayments which were completed in the first half we had almost £800m of cash at the holding companies as of 30th September. This has now increased to £1.1bn following the £300m cash generation in October.

I am delighted with our progress towards our annual and long term cash generation targets, and I'm pleased to confirm that we are on track to achieve the top end of our 2013 target range of between £650m and £750m. I would also like to take the opportunity to reiterate our longer term cash generation target of £3.5bn between 2011 and 2016.

Now, turning to capital. We report our Group solvency position on two bases, IGD and our PLHL ICA. Our IGD surplus and IGD headroom, which is the excess over the IGD capital policy, have both remained stable since 30th June 2013 at £1.1bn and £400m respectively as of 1st October. I reference 1st October as this is the date upon which the annuity transfer Part VII became effective. The IGD headroom increased by circa £200m following completion of the annuity transfer, but this was offset by the expected cash outflows in respect of bank debt repayments, interest and shareholder dividends during the third quarter. So the position remains neutral overall.

Our PLHL ICA surplus and headroom both increased by £200m to £1.2bn and £1bn respectively as of 1st October with the positive impact of the annuity transfer within the life companies being partly offset by bank debt repayments, interest and shareholder dividends during the third quarter.

And from an individual life company perspective we can report the Phoenix Life free surplus. The position has increased by £324m since 30th June to £730m as of 1st October, principally due once again to the annuity transfer. During October £300m of this was distributed to the holding companies in cash.

And finally, but importantly, Ignis. Ignis generated net new business from third parties of £500m in the three months to 30th September, largely driven by strong sales in the Absolute Return Government Bond Fund, bringing the total year to date net third party inflows to £1.4bn. This compares favourably with the full year total in 2012 of £1.6bn. In addition, during the third quarter the remaining £1.1bn of Guardian assets were transferred back to Ignis, bringing Total Group Assets under Management to £68.7bn as of 30th September, compared with £67.1bn as of 30th June.

Finally, with regards to Admin Re, I can report that discussions are progressing and that there is still no certainty of outcome and at this stage I cannot comment on a timetable for the completion of these discussions. What I can confirm is that were any transaction to take place, Swiss Re would be a minority shareholder in the enlarged Phoenix Group. I will of course update the market further as and when appropriate.

So to conclude, I am delighted by the progress we've made so far and I remain confident of our ability to meet all of the financial targets which we have set ourselves for 2013 and beyond. At this point I'd like to finish and if we may, Jo, can we move on to a question and answer session. Thank you very much.

## **Question and Answer Session**

### **Question 1**

#### **Jon Hocking – Morgan Stanley**

Morning, Clive, morning, Jim. I've got two questions if I may, firstly the GI disposal, you say it makes a modest impact on the MCV, does it make any material impact on the cash balance? That's the first question.

And on the second question you've now got a very material gap between the headroom on an ICA basis and on an IGD basis, I'm just wondering whether there's any opportunity in the near term to basically close that gap or is it something we're going to have to wait for Solvency II to go live to execute? Thank you.

#### **Clive Bannister**

Jim, I'm going to hand both of those questions to you.

#### **Answer: Jim McConville**

Jon, thank you, good morning. Your first question on BAGI, the amounts that we will receive in terms of benefit on our ICA surplus will be in the small tens of millions and the impact on the other key metrics that we monitor will be slightly less than that, but positive.

#### **Jon Hocking**

So the cash number will be tens of millions as well will it?

#### **Jim McConville**

It'll be slightly, yes, it's a relatively small number.

#### **Jon Hocking**

Okay, thank you.

**Jim McConville**

In terms of the Solvency I and Solvency II question that you had, clearly the biting constraint is the IGD position and we are clearly monitoring moving that position over to the introduction of Solvency II and understand that journey, so that is something that we'll actively look at as part of our capital management.

**Jon Hocking**

Given there's such a big surplus on an economic basis versus where you are on the IGD basis, is there an opportunity to persuade the regulator to change their sort of threshold requirements on the IGD basis?

**Jim McConville**

I wouldn't go as far as saying there was that opportunity, no.

**Jon Hocking**

Okay, thank you.

**Clive Bannister**

Capital management policies are reviewed regularly, but it is as it is today.

**Jon Hocking**

Okay, thank you.

## **Question 2**

**Marcus Barnard – Oriel Securities**

Hi, Marcus Barnard here from Oriel Securities. Just on the Ignis, can we expect another cash payment during Q4? I note you paid £29m last year and we've had £7m year to date, I just wondered if you could comment on that? Thanks.

**Answer: Jim McConville**

I assume what you're referring to, Marcus, is a dividend from Ignis up into the Group holding company structure.

**Marcus Barnard**

Exactly.

**Jim McConville**

It is possible we will see a small amount of dividend being paid in the final quarter.

**Marcus Barnard**

Okay, thank you.

**Question 3**

**Ashik Musaddi – JP Morgan**

Good morning everyone. A quick one on your free surplus, now your free surplus is very strong at £430m, even after a big payout of £300m, and that compares with the £406m at first half. Can you give us some colour on what's the driver of that big movement in free surplus? And how is it resilient to further market movement, can you give us some colour on that? Thank you.

**Clive Bannister**

Ashik, again thank you for your question. Jim?

**Answer: Jim McConville**

Well, since the first half of the year, Ashik, the key driver in the free surplus was the completion of the Part VII exercise with further small positives from the normal surplus generation and market movements, so that took us to the free surplus at 1st October of £730m from which we then obviously paid the £300m dividend to the beginning of October. So those were the main movements.

**Ashik Musaddi**

Okay, and any colour on sensitivities to equity markets on free surplus movement?

**Jim McConville**

Well, I think the best place for you to look at these was the disclosures given in the half year accounts.

**Ashik Musaddi**

Okay, thank you.

**Concluding Comments – Clive Bannister**

Well, ladies and gentlemen, thank you very much for taking the time, these are a good set of numbers for which we are rightly proud and as I said at the beginning of the call it means that our progress towards our annual and long term cash generation targets, I confirm that we are on track to achieve the top end of the 2013 target of between £650m and £750m. Thank you very much indeed.