Phoenix Group Holdings: Q1 2015 Interim Management Statement 24 April 2015

Phoenix Group announces cash generation of £87 million in the three months to 31 March 2015 and remains on track to meet all its financial targets

Financial and operational highlights in the three months to 31 March 2015

- £87 million of cash generation[1] in the 3 months to 31 March 2015 (3 months to 31 March 2014: £235 million).
- Total holding company cash[2] of £1,032 million at 31 March 2015 (FY14: £988 million).
- Estimated IGD[3] surplus of £1.2 billion at 31 March 2015 (FY14: £1.2 billion).
- Estimated PLHL ICA[3] surplus of £0.7 billion at 31 March 2015 (FY14: £0.7 billion).
- Estimated Phoenix Life free surplus of £271 million at 31 March 2015 following distribution of cash to holding companies (FY14: £196 million).
- The Group continues to expect to be well capitalised under the Solvency II capital regime, with the Group capital position under Solvency II expected to be in excess of the current PLHL ICA surplus, subject to regulatory approval.
- Continued discussions with rating agencies to seek an investment grade rating for Phoenix Group, with process expected to complete during 2015.
- Impact of new pension freedoms within the expected range of outcomes, with the existing partnership with Just Retirement expanded to allow Phoenix Life to offer a wider range of products and services to our customer base.
- Acquired a £0.3 billion portfolio of equity release mortgages, in line with the strategy to diversify the asset portfolio by investing in new asset classes to support the Group's annuity liabilities.
- On track to meet financial targets, comprising
    - operating companies' cash generation of £200 – £250 million in 2015, and £2.8 billion between 2014 and 2019; and
    - cumulative incremental MCEV enhancements of £400 million in the period from 2014 – 2016.

Clive Bannister, Group Chief Executive, commented:

"Phoenix Group remains well placed in a changing regulatory environment. We are on track for both our Solvency II Internal Model Application and to achieve an investment grade credit rating during 2015. We have successfully managed the introduction of the new pension freedoms, supporting our customers as they consider a wider range of options for their retirement provision. We remain in line to meet all our financial targets."

Financial overview

Cash generation

Holding companies'[2] cash flows	3 months to 31 March 2015 £m	3 months to 31 March 2014 £m	Full Year 2014 £m
Cash and cash equivalents at 1 January	988	995	995
Cash receipts			
Cash receipts from Phoenix Life	87	211	446
Cash receipts from Ignis Asset Management	-	3	422
Other cash receipts	-	21	89
Total cash receipts	**87**	**235**	**957**
Operating expenses	(7)	(8)	(29)
Pension scheme contributions	(4)	(4)	(88)
Debt interest	(26)	(17)	(80)
Debt repayment	-	-	(601)
Other non-recurring cash outflows	(6)	(4)	(46)
Shareholder dividends	-	-	(120)
Total uses of cash	**(43)**	**(33)**	**(964)**
Cash and cash equivalents at end of period	**1,032**	**1,197**	**988**

£87 million of cash was received by the holding companies from Phoenix Life in the 3 months to 31 March 2015.

The debt interest payments include a £20 million payment of the accrued Tier 1 coupon that was paid as part of the Tier 1 bond exchange completed in January as well as interest on the bank debt facility. Other non-recurring cash outflows of £6 million include costs relating to the Tier 1 bond exchange.

Cash and cash equivalents in the holding companies include £60 million held within Phoenix Group Holdings that will be used to pay the 2014 final dividend on 27 April 2015.

Capital

Phoenix Life Free Surplus

The Phoenix Life free surplus, which represents excess capital over the minimum requirements and the life companies' capital policies on a Solvency I basis, was £271 million at 31 March 2015 (FY14: £196 million). The movement during the period reflects the release of cash to the holding companies, which was more than offset by the benefit of management actions, including the acquisition of a portfolio of equity release mortgages, and positive market movements.

IGD

The estimated IGD surplus and IGD headroom remained stable at £1.2 billion and £0.5 billion, respectively at 31 March 2015 (FY14: £1.2 billion and £0.5 billion). The IGD position includes the impact of the payment of the 2014 final dividend of £60 million.

PLHL ICA

The estimated PLHL ICA surplus and PLHL ICA headroom remained stable at £0.7 billion and £0.6 billion, respectively at 31 March 2015 (FY14: £0.7 billion and £0.6 billion). The PLHL ICA position includes the impact of the payment of the 2014 final dividend of £60 million.

Solvency II

The Group's activities in relation to Solvency II have continued to be focused primarily on the preparation of the Group's Internal Model Application, as well as on monitoring the progress of the development of the Solvency II regulations. The Prudential Regulatory Authority ('PRA') has provided additional clarity in recent months with regards to matching adjustments and transitional provisions. The Group expects to formally apply for regulatory approval of the Group's Internal Model in June.

Although there remains uncertainties with regards to the new Solvency II capital regime, the Group expects to be well capitalised under Solvency II, with the Group capital position under Solvency II expected to be in excess of the current PLHL ICA surplus. However, this is subject to regulatory approvals and should not be seen as representing the views of the PRA.

Regulatory and legislative changes

In preparation for the impact of the new pension freedoms introduced from 6 April 2015, Phoenix Life has in co-operation with its outsource partners increased the operational capacity and skill levels of staff. As expected, the number of customer calls has increased since the introduction of the new freedoms, with volumes immediately after 6 April being around twice the usual levels. This increase in calls was well within Phoenix Life's planning parameters and there have been no material operational issues for the Group.

It will take some time before the full impact of the new pension freedoms become clear, but initial indications are that some customers are interested in full encashment of their pension savings, particularly for smaller pots. However, the tax implications of full encashment are not well understood by many customers and Phoenix Life is therefore providing detailed information to customers on their options as well as promoting the availability of the government's PensionWise service. In addition, customers are clearly informed if they have guaranteed annuity rates as part of their products and there is a further requirement for customers to take financial advice before foregoing guaranteed annuity rates on pension pots with a value above £30,000.

In order to ensure that Phoenix Life customers have access to the wider range of options available under the new pension freedoms, Phoenix Life has agreed a wider partnership agreement with Just Retirement. This provides customers with a wider range of products, including the ability to 'shop around' for standard and enhanced annuities as well as offering a drawdown pension product. The new partnership also offers customers the ability to access financial advice as they plan for their retirement.

Phoenix Life will continue to adopt its 'test and learn' strategy with regard to the changes to the retirement market in order that customers are provided with access to information and a range of products and services. The investment already made in the operational capacity of Phoenix Life will allow the Group to react to customer behaviour in the coming months.

Financial targets

Cash distributions to the holding companies are not evenly spread throughout the year as they depend on the emergence of free surplus within the life companies and the timing of management actions. However, having generated £87 million of cash in the first quarter, the Group is on track to meet its cash generation target for the full year of £200 - £250 million and its long term cash generation target of £2.8 billion between 2014 and 2019.

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 Group, IGD sensitivities, IGD, PLHL ICA or Solvency II relate to the relevant calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
4. Financial targets are based on the assumption that the Solvency II regulations operate as we expect.

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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 2015

Half year 2015 results	20 August 2015
Q3 2015 IMS	22 October 2015

- 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', 'will', 'expects', 'plans', 'aims', '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.