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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

FOR IMMEDIATE RELEASE

Proposed Acquisition of Abbey Life – Reinforces Phoenix’s Position as the UK’s Leading Closed Life Fund Consolidator

Phoenix Group Holdings (“Phoenix” or the “Company” and, together with its subsidiaries, the “Group”) is pleased to announce the proposed acquisition of Abbey Life Assurance Company Limited (“ALAC”), Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited (together “Abbey Life”) from Deutsche Holdings No. 4 Ltd., a wholly owned subsidiary of Deutsche Bank AG (the “Seller”) for total consideration of £935 million in cash payable on completion, subject to adjustments (the “Acquisition”).

Acquisition Highlights

- Consideration of £935 million in cash payable on completion
- Acquisition to add £10 billion of assets under management and approximately 735,000 policyholders
- Acquisition expected to generate approximately £0.5 billion of aggregate cashflows between 2016 and 2020 and approximately £1.1 billion in aggregate from 2021 onwards
- Attractive price representing 0.89x multiple of Solvency II Own Funds and 0.77x of MCEV⁽¹⁾
- Acquisition will support a proposed increase in dividends in respect of 2017 to £197 million, representing a further 5%⁽²⁾ increase in dividend per share (“DPS”) in addition to the 5% increase in DPS as a result of the AXA transaction, and equivalent to a total increase in the DPS of 10%⁽²⁾ from the 2015 level
- Consideration and estimated expenses to be financed through a fully underwritten rights issue to raise a total of £735 million and a £250 million new bank facility

Commenting on the Acquisition, Phoenix Group’s CEO, Clive Bannister said:

“This is a pivotal deal for Phoenix, giving us the platform and scale to continue as a leader in the consolidation of the UK life industry.

“The dynamics of this industry offer a number of value-accretive opportunities, as evidenced by the announcement of our acquisition of AXA Wealth’s pensions and protection business earlier this year.

“This attractively-priced deal meets precisely Phoenix’s areas of strategic focus and stated acquisition criteria, whilst significantly increasing our cash generation and supporting a further increase in our proposed dividend.

“The business models of AXA and Abbey Life are complementary and will allow the Group to gain from economies of scale. Furthermore, Abbey Life policyholders will benefit from stable ownership, improved service levels and a robust governance framework.”



The Acquisition and estimated expenses will be financed through a combination of (a) proceeds of a fully underwritten rights issue to raise a total of £735 million (the “Rights Issue”), and (b) £250 million from a new bank facility. The entire amount of the Rights Issue has been fully underwritten by HSBC Bank plc (“HSBC”), Morgan Stanley & Co. International plc (“Morgan Stanley”), J.P. Morgan Securities plc (“J.P. Morgan Cazenove”), Commerzbank Aktiengesellschaft, London Branch (“Commerzbank”) and Natixis (together the “Underwriters”).

The Acquisition represents a compelling opportunity to acquire a significant closed life fund which is consistent with the Group’s areas of strategic focus and meets its stated acquisition criteria.

Compelling Strategic Rationale and Significant Financial Benefits

- **Enhances scale in the UK closed life sector:** The Acquisition brings an additional £10 billion of assets under management and approximately 735,000 policyholders to the Group⁽³⁾. The enhanced scale strengthens the Company’s position as the largest specialist consolidator in the UK closed life sector and enhances the Group’s capacity to create shareholder value, including through future value-accretive acquisitions.
- **Increase in long-term cash generation:** Acquisition expected to generate £0.5 billion of aggregate cashflows between 2016 and 2020 and approximately £1.1 billion in aggregate from 2021 onwards.
- **Attractive acquisition price:** The total consideration of £935 million represents a multiple of 0.89x of ALAC’s Solvency II Own Funds as at 30 June 2016⁽⁴⁾ and a multiple of 0.77x of ALAC’s MCEV as at 31 December 2015⁽⁴⁾.
- **Supports a further increase in the proposed dividend:** The incremental cashflow generation from the Acquisition supports (subject to regulatory approval) a proposed increase in dividends in respect of 2017 to £197 million. Based on the closing share price on 27 September 2016, this is equivalent to a further 5%⁽²⁾ increase in the DPS, with effect from the interim dividend payable in respect of 2017 and is in addition to the 5% increase in DPS as a result of the AXA transaction. The total dividend payable in respect of 2017 would represent an increase in the DPS of 10%⁽²⁾ from the 2015 level. The Directors believe this is a sustainable level at which to rebase the dividend going forward.
- **Accelerates value creation through implementation of management actions:** Phoenix expects to generate capital and cost benefits through a series of management actions, including the migration of Abbey Life to the Phoenix Solvency II Internal Model and capital management policies, application for Transitional Measures, implementation of changes to Abbey Life’s existing asset strategy, and improvements in operating efficiency (delivering approximately £7 million savings per annum). The expected impact of these actions is included in the cash generation expected from the transaction up to 2020, with further scope for management actions from 2021 onwards.
- **Strengthens the Group’s balance sheet and credit profile:** The proposed financing structure for the Acquisition further strengthens the Group’s balance sheet and is expected to result in a modest immediate reduction in the Group’s Fitch leverage ratio. The Group’s Solvency II Surplus stated as at 30 June 2016 is expected to increase from £1.1 billion to £1.5 billion, and the Shareholder Capital coverage ratio is expected to increase from 144% to 151%⁽⁵⁾.
- **Delivers clear benefits for Abbey Life policyholders:** Abbey Life policyholders will become part of a focused closed life fund specialist with over 6 million customers. Phoenix has a clear customer strategy with a strong emphasis on the fair treatment of customers. Phoenix will apply its customer model and product governance to Abbey Life with a focus on delivering improved customer outcomes.

Transaction Timetable

The Acquisition is categorised as a Class 1 transaction under the UK Listing Rules and is therefore conditional upon the approval of Phoenix’s shareholders. It is anticipated that a combined Class 1 Circular



and Prospectus for the Acquisition and Rights Issue will be published during early October 2016, with a shareholder vote at the General Meeting to follow by the end of October 2016.

The Rights Issue will be made on the basis of 7 Rights Issue shares issued at 508 pence each for every 12 existing Phoenix shares. Dealings in the Rights Issue shares, nil paid, are expected to commence in the second half of October 2016, subject to the approval of the Acquisition and the granting of the authority to allot and issue the Rights Issue shares by Phoenix's shareholders at the General Meeting. Phoenix is targeting completion of the Acquisition by the end of 2016, subject to regulatory approvals.

The Acquisition follows the successful announcement of the AXA Transaction. The AXA Transaction is on track to complete in November 2016, with outstanding regulatory approvals progressing as anticipated. The Directors expect the standalone nature of the Abbey Life business to lead to a straightforward integration alongside AXA.

Webcast and Conference Call

A presentation for analysts and investors will be held today, 28 September, at 9.30 am (BST) at J.P. Morgan, 60 Victoria Embankment, London, EC4Y 0JP with tea and coffee served from 9.00 am.

A link to a live webcast of the presentation and a copy of the presentation will be available at www.thephoenixgroup.com.

Participants may also join the presentation via conference call using the following dial-in details:

UK	020 3059 8125
International	+ 44 20 3059 8125
Participant password: 'Phoenix'	

The person responsible for arranging for the release of this announcement on behalf of Phoenix is Gerald Watson.

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Information on Abbey Life

Abbey Life is a life insurance group that specialises in the management of closed life and pension funds predominantly comprising unit-linked life and pensions policies and annuities in payment. ALAC also manages two with-profit funds, other non-profit funds and a small permanent health insurance book. ALAC is authorised by the PRA and regulated by the FCA and the PRA to carry on long term insurance business in the UK. As at 31 December 2015, Abbey Life had approximately 735,000 policyholders and £10 billion of assets under management. ALAC's Solvency II Own Funds as at 30 June 2016 was £1,047 million and ALAC's Market Consistent Embedded Value ("MCEV") as at 31 December 2015 was £1,218 million.

Abbey Life's business comprises three key areas:

- **Unit-linked:** Pensions and life businesses that has been closed to new business since 2000. As at 31 December 2015, Abbey Life's unit-linked business had assets under management of £7.3 billion and approximately 457,000 policyholders.
- **Non-linked:** Predominantly constitutes annuities-in-payment. As at 31 December 2015, Abbey Life had £2.5 billion in non-linked assets under management and approximately 270,000 policyholders. Over 80% of the longevity risk arising from the liabilities has been reinsured to third parties.
- **Other:** Includes five pensions de-risking transactions and a structured reinsurance transaction that have been undertaken since 2010 with more than 90% of the risk being reinsured to third parties. In addition, Abbey Life manages two with-profit funds, other non-profit funds and a small permanent health insurance book, with assets under management of £0.5 billion as at end 2015.

Abbey Life employs 45 permanent employees as at 30 June 2016, all of whom are expected to transfer to the Group with the Abbey Life businesses. In addition, 2 further Deutsche Bank employees, who are members of Abbey Life's management team, are expected to transfer to the Group on completion.

Principal Terms of the Acquisition

Under the terms of the Sale and Purchase Agreement dated 28 September 2016 between Phoenix Life Holdings Limited (as buyer) ("PLHL"), the Company (as the buyer's guarantor), the Seller and Deutsche Bank (as the Seller's guarantor), PLHL will acquire the entire issued share capital of ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from the Seller. The aggregate amount payable by PLHL for the Acquisition will be £935 million in cash, subject to adjustments. At Completion, the Abbey Life entities will become wholly owned indirect subsidiaries of the Company.

The Sale and Purchase Agreement contains the customary representations and warranties, covenants, undertakings and conditions for a transaction of this nature. Abbey Life and its direct and indirect shareholders, the Seller and Deutsche Bank, have agreed not to solicit competing proposals or provide information or engage in discussions with third parties.

Completion is subject to certain conditions, including:

- the approval of the Acquisition (as a Class 1 transaction under the Listing Rules) by a majority of votes cast by Phoenix's shareholders at the shareholder meeting;
- actual or deemed consent from the PRA for the acquisition of control of ALAC by PLHL and the Company (and any other relevant entities); and
- Admission.

The Sale and Purchase Agreement provides for a long-stop date of 28 March 2017 (extendable in limited circumstances).



Contractual Protection in Place for FCA Investigation Outcomes

Phoenix has agreed a Deed of Indemnity (“DoI”) with Deutsche Bank, including £175 million indemnity protection, to cover potential negative outcomes with respect to the FCA’s investigation in to Abbey Life’s fair treatment of long standing customers between 2008 and 2015, and Abbey Life’s annuity sales practices.

Risk sharing agreements have been put in place for redress costs and associated fees connected to both investigations whilst potential fines will be borne entirely by Deutsche Bank, subject to the £175 million aggregate indemnity protection level. The DoI will expire after six years in respect of the long-standing customer investigation and eight years in respect of the annuity sales investigation.

Financial Impact of the Acquisition

The Acquisition will bring to the Group an additional £10 billion of life company assets and approximately 735,000 policyholders, based on Abbey Life’s position as at 31 December 2015. This will result in an increase in the Group’s existing assets under management to £62 billion of life company assets and approximately 5.2 million policyholders. The AXA Transaction is expected to add £12 billion of assets under management and over 910,000 policyholders to the Group.

Over the years 2016 to 2020, the Company’s stated annual cash generation target is £2.0 billion. For the same period, after implementing certain management actions, the expected cash generation from the AXA Transaction is £0.3 billion and from the Acquisition is £0.5 billion. From 2021 onwards, the Acquisition is expected to generate stable and sustainable cash flows, with the scope for incremental management actions. For this period, the Company’s illustrative cash generation expectation is £3.1 billion, £0.2 billion from the AXA Transaction and £1.1 billion from the Acquisition.

The proposed financing mix will further strengthen the Group’s balance sheet and is expected to result in a modest immediate reduction to the Group’s Fitch leverage ratio, reflecting the desire to maintain the Group’s investment grade rating.

The Group’s Solvency II surplus stated as at 30 June 2016 is expected to increase from £1.1 billion to £1.5 billion, and the Shareholder Capital Coverage Ratio is expected to increase from 144% to 151%⁽⁵⁾. In the second half of 2017, the Company will make an application to extend the scope of the Internal Model to cover the Abbey Life business and to apply Transitional Measures. Subject to regulatory approval, the business will be incorporated within the Group’s Solvency II Internal Model in early 2018. Phoenix will implement hedging strategies to protect the capital position in line with the Group’s existing market risk policies.

The Directors believe that, based on their assessment of the operating expenses of Abbey Life, there is an opportunity, as a result of the Acquisition, to reduce annualised operating expenses of the Enlarged Group by approximately £7 million on a recurring basis by 31 December 2018. The Directors expect to incur one-time expenditure of approximately £9.2 million, in addition to approximately £8.0 million of project costs for investment in Abbey Life’s systems and operations, which are estimated to be incurred in 2017 and 2018.

Dividend and Dividend Policy

The incremental cashflow generation from the Acquisition supports (subject to regulatory approval) a proposed increase in dividends in respect of 2017 to £197 million. Based on the closing share price on 27 September 2016, this is equivalent to a further 5%⁽²⁾ increase in the DPS, with effect from the interim dividend payable in respect of 2017 and is in addition to the 5% increase in DPS as a result of the AXA transaction. The total dividend payable in respect of 2017 would represent an increase in the DPS of 10%⁽²⁾ from the 2015 level. Due to the stable and long-dated nature of the Abbey Life cashflows, the Acquisition is also expected to further enhance the sustainability of the Group’s dividend over time.



Financing the Acquisition

The consideration to be paid by the Company at Completion will be £935 million, subject to adjustments. The Company proposes to finance the consideration and estimated expenses through a combination of (a) proceeds of a Rights Issue to raise a total of £735 million, and (b) £250 million from a new bank facility with an initial margin of 85 basis points.

With respect to the Rights Issue, Phoenix has entered into an Underwriting Agreement with HSBC, Morgan Stanley, J.P. Morgan Cazenove, Commerzbank and Natixis to raise £735 million to fund the consideration and fees associated with the transaction in a fully underwritten Rights Issue of 7 Rights Issue shares at 508 pence each for every 12 existing Phoenix shares. Dealings in the Rights Issue shares, nil paid, are expected to commence in the second half of October 2016, subject to the approval of the Acquisition and the granting of the authority to allot and issue the Rights Issue shares by Phoenix's shareholders.

If completion does not take place before the long-stop date of 28 March 2017 (extendable in limited circumstances), the Directors intend to retain the net proceeds of the Rights Issue for use within the next 12 months on alternative acquisitions consistent with the Group's acquisition criteria and strategy. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to shareholders in a tax efficient and practicable manner or seek shareholder approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes.

Integration of the Acquired Businesses

The Group intends to apply a disciplined approach to the separation and integration of Abbey Life. Abbey Life already operates as a largely standalone business within Deutsche Bank, with only a limited level of services provided by Deutsche Bank to Abbey Life. This allows for a straightforward approach to separation with limited transitional services being required from Deutsche Bank to Abbey Life for a period following Completion.

The Group will work closely with Abbey Life and Deutsche Bank to effect separation and transfer actions as efficiently and expediently as possible and may enter into certain short term transitional services agreements, if necessary.

Update on AXA Transaction

The AXA Transaction remains on track to complete in November 2016, with regulatory approvals progressing as anticipated. Cashflow expectations remain unchanged with £250 million expected within six months of completion. Planned integration within Phoenix's operations and outsourcing partners is progressing as expected.

Notes

⁽¹⁾ Valuation metrics based on financials as per Abbey Life basis, before impact of management actions. Solvency II Own Funds as at 30 June 2016, MCEV as at 31 December 2015

⁽²⁾ Stated after adjusting the 2015 dividend per share for the bonus element of the Rights Issue and based on the closing share price as at 27 September 2016 of 838.5p.

⁽³⁾ As at 31 December 2015

⁽⁴⁾ Before impact of management actions

⁽⁵⁾ Pro forma position assumes Abbey Life Solvency II position based on Standard Formula as at 31 December 2015, before impact of management actions. Excludes the impact of the AXA Transaction, which is expected to increase the Group's Solvency II surplus by approximately £0.1 billion and the Group's Shareholder Capital Coverage Ratio by 2 percentage points



PHOENIX GROUP

Phoenix Group Holdings: Acquisition announcement

28 September 2016

Gross Assets subject to this transaction were £11,135 million (as at 30 June 2016). Profits attributable to the assets subject to this transaction were £123 million (as at 31 December 2015).



Important Notices

This announcement has been issued by and is the sole responsibility of the Company. This announcement is not a circular or a prospectus but an advertisement and investors should not acquire any nil paid rights, fully paid rights or new shares or depositary interests referred to in this announcement except on the basis of the information contained in the combined circular and prospectus to be published by the Company in connection with the Acquisition and the Rights Issue in due course. The information contained in this announcement is for background purposes only and does not purport to be full or complete. The information in this announcement is subject to change. A copy of the combined circular and prospectus when published will be available from the registered office of the Company and on the Company's website, provided that such circular and prospectus will not, subject to certain exceptions, be available to certain shareholders in certain restricted or excluded territories. The combined circular and prospectus will give further details of the Acquisition and the Rights Issue.

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The securities referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "US Securities Act"), under the securities legislation of any state of the United States or under the applicable securities laws of Australia, Canada, Japan or South Africa. The securities referred to herein may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The distribution of this announcement into jurisdictions other than the United Kingdom may be restricted by law, and, therefore, persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdiction. In particular, subject to certain exceptions, this announcement, the combined circular and prospectus (once published) and the provisional allotment letters (once printed) should not, subject to certain exceptions, be distributed, forwarded to or transmitted in or into the United States, Australia, Canada, Japan, South Africa or any other restricted or excluded territories or any jurisdiction where to do so would be unlawful.

This announcement does not constitute a recommendation concerning any investor's decision or options with respect to the Acquisition or the Rights Issue. The price and value of securities can go down as well as up. Past performance is not a guide to future performance. The contents of this announcement are not to be construed as legal, business, financial or tax advice. Each shareholder or prospective investor should consult his, her or its own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice.

HSBC, Morgan Stanley and J.P. Morgan Cazenove, each of which is authorised by the PRA and regulated in the United Kingdom by the PRA and the FCA, Commerzbank, which is authorised under German Banking Law by BaFin (the Federal Financial Supervisory Authority) and is authorised and subject to limited regulation by the PRA and the FCA in the United Kingdom, and Natixis, which is regulated in France by ACPR and the AMF and supervised by the European Central Bank, are each acting for the Company and for no one else in connection with the Acquisition and the Rights Issue, and will not regard any other person as a client in relation to the Acquisition and the Rights Issue and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients, nor for providing advice in connection with the Acquisition, the Rights Issue or any other matter, transaction or arrangement referred to in this announcement.



Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by the FSMA or the regulatory regime established thereunder, none of the Underwriters nor any of their respective affiliates accepts any responsibility or liability whatsoever and makes no representation or warranty, express or implied, for the contents of this announcement, including its accuracy, fairness, sufficiency, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company or the Acquisition or the Rights Issue and nothing in this announcement is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Each of the Underwriters and their respective affiliates accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this announcement or any such statement. Furthermore, each of the Underwriters and/or their affiliates provides various investment banking, commercial banking and financial advisory services from time to time to the Company.

No person has been authorised to give any information or to make any representations other than those contained in this announcement and, when published, the combined circular and prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Company, HSBC, Morgan Stanley, J.P. Morgan Cazenove, Commerzbank or Natixis. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the issue of this announcement shall not, in any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this announcement or that the information in it is correct as at any subsequent date.

Each of the Underwriters and/or their respective affiliates, acting as investors for their own accounts, may, in accordance with applicable legal and regulatory provisions, engage in transactions in relation to the nil paid rights, the fully paid rights, the new shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Except as required by applicable law or regulation, the Underwriters and their respective affiliates do not propose to make any public disclosure in relation to such transactions.

This announcement may contain certain forward-looking statements, beliefs or opinions, with respect to the financial condition, results of operations and business of the Company, the enlarged group following the Acquisition and Abbey Life. These statements, which contain the words "anticipate", "believe", "intend", "estimate", "expect", "may", "will", "seek", "continue", "aim", "target", "projected", "plan", "goal," "achieve" and words of similar meaning, reflect the Company's beliefs and expectations and are based on numerous assumptions regarding the Company's present and future business strategies and the environment the Company and the enlarged group will operate in and are subject to risks and uncertainties that may cause actual results to differ materially. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the Company or the enlarged group to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond the Company's or the enlarged group's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of regulators and other factors such as the Company's or the enlarged group's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Company or Abbey Life operates or in economic or technological trends or conditions. Past performance of the Company or Abbey Life cannot be relied on as a guide to future performance. As a result, you are cautioned not to place undue reliance on such forward-looking statements. The list above is not exhaustive and there are other factors that may cause the Company's or the enlarged group's actual results to differ materially from the forward-looking statements contained in this announcement. Forward-looking statements speak only as of their date and the Company, HSBC, Morgan Stanley, J.P. Morgan Cazenove, Commerzbank and Natixis, their respective parent and subsidiary undertakings, the subsidiary undertakings of such parent undertakings, and any of such person's respective directors, officers, employees, agents, affiliates or advisers expressly disclaim any obligation to supplement, amend, update or revise any of the forward-looking statements made herein, except where it would be required to do so under applicable law. You are advised to read this announcement and, once published, the combined circular and prospectus in their entirety for a further discussion of the



factors that could affect the Company's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this announcement may not occur. No statement in this announcement is intended as a profit forecast or a profit estimate and no statement in this announcement should be interpreted to mean that the financial performance of the Company for the current or future financial years would necessarily match or exceed the historical published for the Company.