Full year 2023 results

Phoenix Group Holdings plc

We have three objectives for today's presentation

1. Explain our strong 2023 results and strategic progress
2. Update on the next phase of our strategic journey
3. Outline the financial outcomes that shareholders can expect

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Good morning to those of you in the room, and those of you joining on the webcast.

And welcome to Phoenix Group's 2023 full year results presentation.

Our presentation this morning has three objectives.

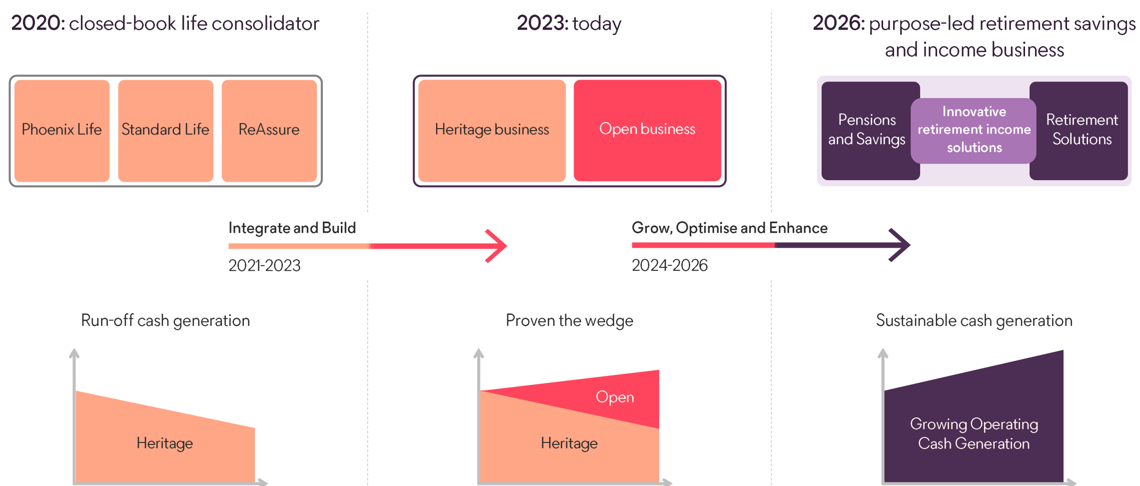
First, we will explain our strong 2023 financial results, and the strategic progress we have made.

Second, we will update you on the next phase of our strategic journey, as we seek to deliver our long-term vision.

And finally, we will outline the clear financial outcomes that shareholders can expect, as we deliver our strategy.

Introduction

Andy Briggs
Group Chief Executive Officer



When I joined Phoenix in 2020, the Group was firmly established as the UK's leading consolidator of closed-life insurance businesses. And had just completed two transformational M&A transactions, in Standard Life and ReAssure.

However, Phoenix was, by definition, a business in run-off. And I was given a clear mandate, by the Board, to evolve from having a sole reliance on M&A for growth.

We have therefore spent the last 3 years focused on two key areas.

Firstly, integrating these acquisitions and delivering significant synergies. Some of which we have shared with our customers by, for example, capping charges. And this is why our Consumer Duty provision is only a modest £70 million, as Rakesh will cover shortly.

And secondly, we have separately built several competitive, growing Open businesses.

Our successful execution has enabled us to prove "the wedge" hypothesis, with the new business cash from our Open businesses, more than offsetting the Heritage run-off. And that means we are today, a sustainably growing business, and no longer reliant on M&A.

I am delighted that we have completed this initial phase quicker than expected.

As evidenced by the achievement of our 2025 growth targets two years early, and the strong annuities and Workplace businesses we have built.

We are therefore now moving to the next phase of executing our strategy.

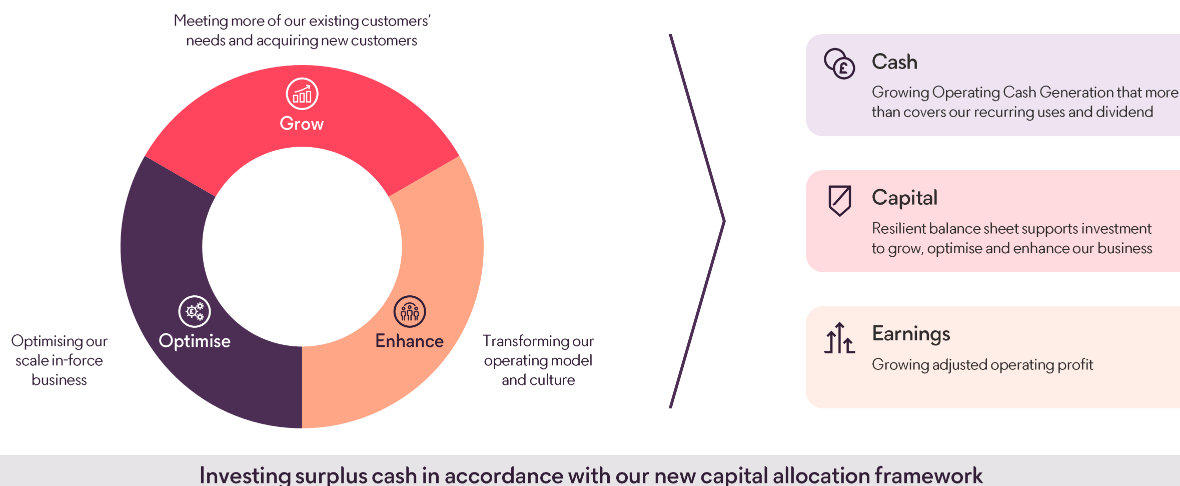
This will see us investing in our business to Grow, Optimise and Enhance. As we fully transform into a purpose-led, retirement savings and income business, that delivers sustainable cash generation, over the long term

We will do this through filling the remaining gaps in our full-service customer proposition, by building compelling Retail market propositions, and developing innovative retirement income solutions.

We will also now combine our Heritage and various Open businesses together, on a single Group-wide operating model. This will enable us to grow faster, by offering all of our customers, whether in an Open or Heritage product, a seamless journey across their savings lifecycle.

And it will support us in becoming even more cost efficient.

And that is why we have evolved our business reporting segments. With our Pensions and Savings business now comprising our Standard Life Workplace and Retail businesses as before, as well as the unit-linked Retail business from our former Heritage segment.



In order to deliver on the next phase of our strategy, we will balance the investment of our surplus cash across our strategic priorities of grow, optimise and enhance.

This will be done in line with the new capital allocation framework we are outlining today, which Rakesh will cover in more detail later.

Our first strategic priority is to grow.

Our investments here will support us in building our Retail propositions, and enable the continued growth of our Workplace and annuities businesses.

Our second strategic priority is to optimise.

Here we will continue our journey to pay down M&A-related debt, as we target a 30% Solvency II leverage ratio.

And invest in further enhancing asset and liability optimisation capabilities, to support recurring management actions, each and every year, over the long term.

Our third strategic priority is to enhance.

This will see us complete our remaining migration and transformation programmes, and move to a more efficient, single Group-wide operating model.

The combination of which, will support £250 million of annual cost savings by the end of 2026.

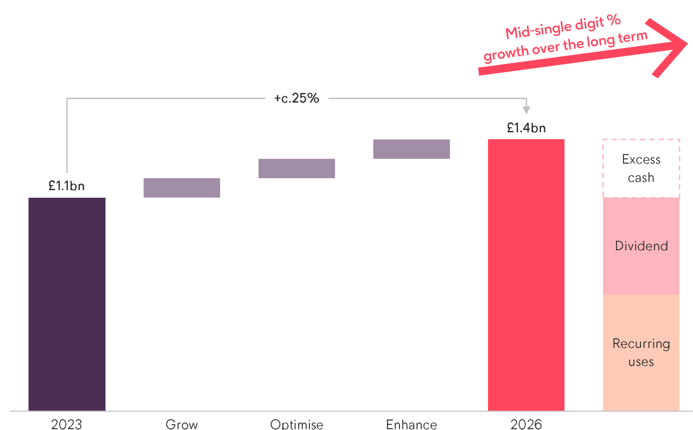
Executing on these strategic priorities will, in turn, deliver strong performance across our evolved financial framework of cash, capital and earnings.

And this investment spend is comfortably funded, from the surplus cash available as we deliver substantial cash generation over the next three years.

So, turning next to what this means for shareholders, on slide 6…

Our strategy delivers sustainable, growing Operating Cash Generation which supports a progressive dividend

Strong growth in Operating Cash Generation



See Appendix 16 for footnotes

The Board has evolved Phoenix's dividend policy to reflect the confidence it has in the Group's strategy:

Phoenix Group's new dividend policy

The Group operates a progressive and sustainable ordinary dividend policy[1]

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We are today introducing our new primary reporting metric of Operating Cash Generation, which Rakesh will explain in more detail later.

Simply put, it is the sustainable level of surplus generation in our life companies, each and every year, that is then remitted as cash to our Group Holding Company.

As we outline today, our strategy will deliver strong growth in Operating Cash Generation over the next three years, as we grow, optimise and enhance our business.

With a target of £1.4 billion in 2026, an increase of 25% from today.

After which, we expect it to then grow at a sustainable, mid-single digit growth rate, over the long term.

Importantly, this Operating Cash Generation more than covers our recurring uses, and a growing dividend. Leaving excess cash, that can support additional investment back into the business, and/or additional shareholder returns.

This means that the Board can now move to a progressive and sustainable ordinary dividend policy, with a clear intention to grow our dividend every year, whilst still maintaining the long-term sustainability of the dividend.

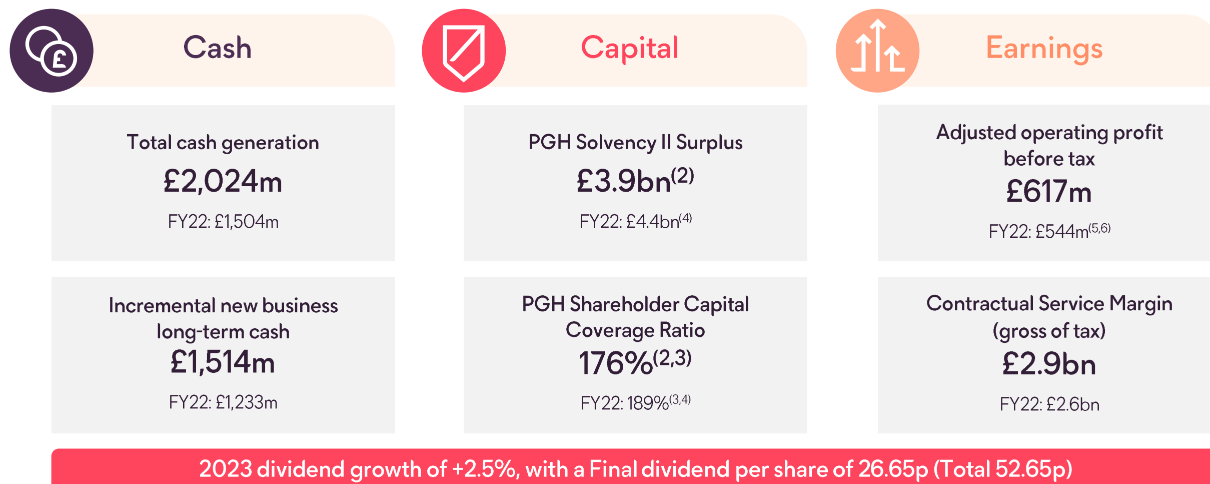
We see this as a pivotal step in the evolution of Phoenix's investment case, and it is a reflection of the Board's confidence in our future strategy.

And with that, I will hand you over to Rakesh, who will take you through our strong 2023 financial results.

2023 financial results

Rakesh Thakrar
Group Chief Financial Officer

Thank you, Andy, and good morning everybody.



Our 2023 financial results demonstrate the clear strategic progress we have made over the last three years.

We continue to deliver high levels of dependable cash generation, and have continued to grow our incremental new business long-term cash.

Our balance sheet remains as resilient as ever, with our Shareholder Capital Coverage Ratio towards the top-end of our operating range.

And our improving earnings reflect the investment we are making, with a 13% increase in operating profit and a 10% increase in our Contractual Service Margin.

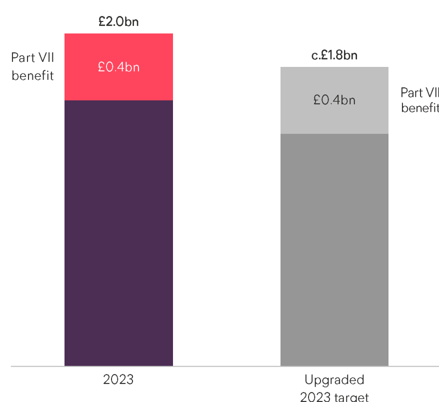
As a result, the Board has recommended a 2.5% increase in the Final dividend to 26.65 pence per share.

So, turning to the detail, on slide 9...

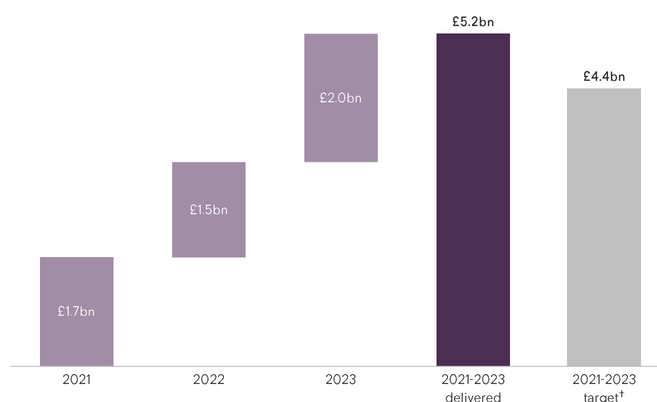
Total cash generation of £2.0 billion exceeds our upgraded target

Cash

Strong total cash generation in 2023



c.£800 million over-delivery of 2021-2023 total cash generation target



† 2021-2023 target set in March 2021

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At Phoenix, cash generation is the actual cash remitted from our life companies to group

We have generated just over £2 billion of cash in 2023.

This was supported by the Part VII transfer of Standard Life and Phoenix Life, one of the largest UK insurance Part VII transfers ever completed.

Which enabled us to release the previously recognised capital benefit held in our life companies.

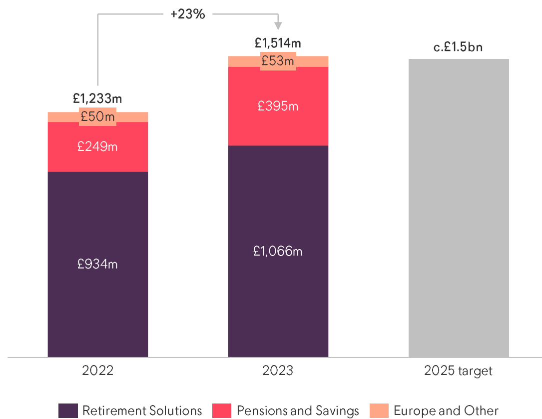
We have therefore beaten our revised 2023 target of £1.8 billion, due to higher levels of management actions delivered in the year.

And with £5.2 billion generated over the past three years, we have overdelivered the 3-year target we set in 2021, by £800 million.

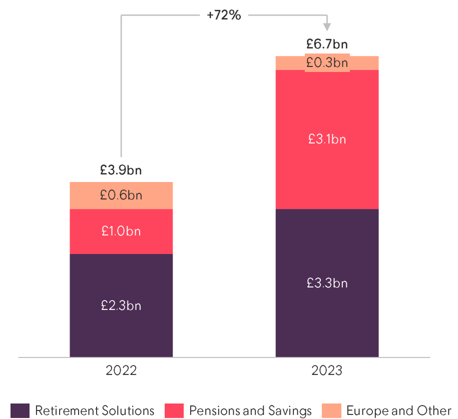
Turning next to our new business growth…

£1.5 billion of new business long-term cash delivered two years ahead of our 2025 target

Strong incremental new business long-term cash



Our strategy is driving increased new business net fund flows



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We have increased our incremental new business long-term cash by 23% year-on-year, to just over £1.5 billion.

We have therefore achieved our 2025 target two years early, and so we are replacing our previous growth targets, with a new set of 2026 targets, that I will talk to later.

Our 2023 performance comprises an increase in our capital-light Pensions and Savings business, to £395 million, primarily driven by our success in Workplace.

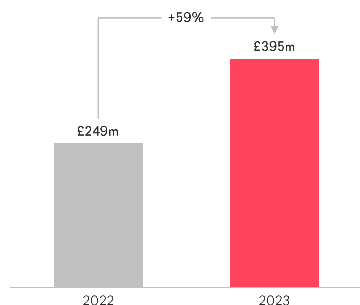
While our Retirement Solutions business remains the largest contributor at nearly £1.1 billion.

As a result, our new business net fund flows, were up 72% year-on-year, to £6.7 billion.

Driven primarily by our Pensions and Savings business, which I will explain on slide 11…

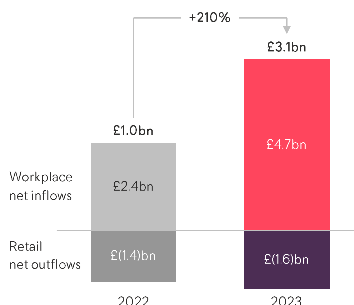
Our capital-light Pensions and Savings business is growing strongly

Incremental new business long-term cash



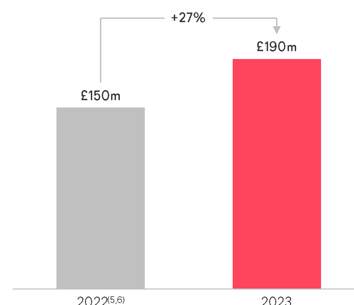
- Strong growth driven by Workplace, reflecting new joiners to existing schemes and increased member contributions including salary inflation

New business net fund flows



- Won the Siemens workplace scheme, one of the largest UK scheme transfers in recent years
- Excellent customer service and our digital portal also support strong net fund flow performance

Adjusted operating profit



- Strong year-on-year growth driven by increased assets and expanding margin through operating leverage

See Appendix 16 for footnotes

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Our capital-light fee-based Pensions and Savings business is growing strongly.

The investment we have made into our Workplace proposition is enabling us to retain our existing schemes, and win new schemes in the market.

This drives the compounding "flywheel" effect we have talked about before.

New joiners and increased member contributions, including salary inflation, add growth to our existing schemes, and together with transferring new schemes, drive increased revenue that falls straight through to the bottom line.

This supported a 59% year-on-year increase in new business long-term cash.

And a near doubling of our workplace net fund flows to £4.7 billion, partly due to the transfer of the Siemens workplace scheme.

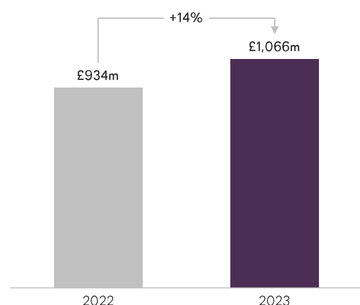
This was one of the largest workplace scheme transfers in the UK market in recent years, a clear endorsement of the strength of the Standard Life brand.

The growth we are seeing in assets, and our expanding margins through operating leverage, translate straight into our earnings. With a 27% increase in our operating profit year-on-year.

Turning next to Retirement Solutions on slide 12...

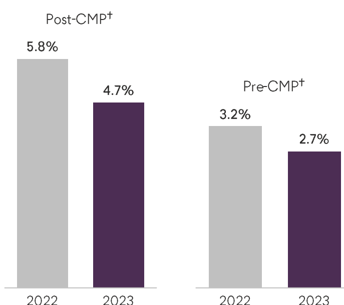
Our Retirement Solutions business has been competitive in a busy annuities market and further reduced the capital strain

Incremental new business long-term cash



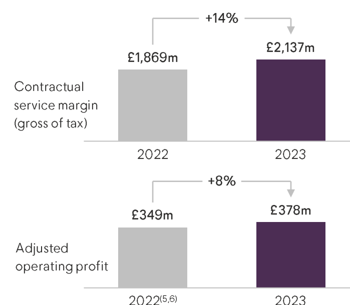
- Continued growth in a competitive BPA market with £6.2bn of premiums written in 2023 (FY22: £4.8bn)
- Achieved mid-teens IRR in 2023

BPA capital strain



- Diversified business model supports capital efficient growth
- Capital invested of £288m (FY22: £277m)

IFRS earnings



- Strong growth in CSM due to new business and positive assumption changes
- Growth in adjusted operating profit was dampened by BPAs landing late in the year

See Appendix 16 for footnotes
† Capital Management Policy

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Our Retirement Solutions business has been competitive in a busy annuities market.

New business long-term cash increased to £1.1 billion in 2023, with £6.2 billion of premiums written at an attractive mid-teens IRR.

We have further reduced our capital strain in the year, to 2.7% on a pre-capital management policy basis. This is supported by our diversified business model, and includes the risk margin reduction from the Solvency II reform.

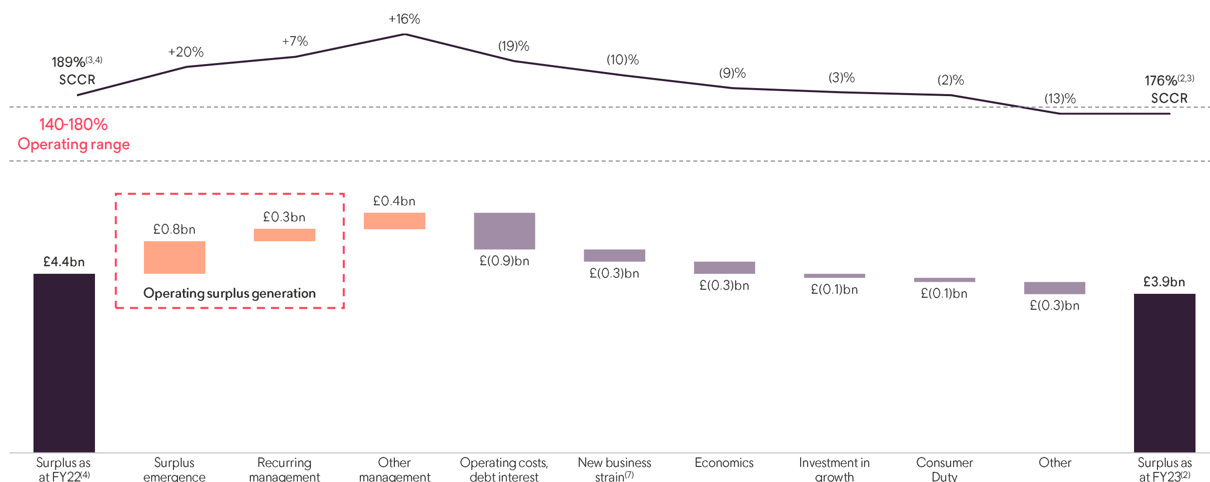
This new baseline strain level means we can deliver attractive returns in a competitive market, and it will support our disciplined capital allocation approach going forward.

From an earnings perspective, we have seen a 14% year-on-year growth in the annuities CSM due to new business growth and positive assumptions changes. While operating profit grew by 8%.

Turning next to capital, on slide 13…

Shareholder Capital Coverage Ratio of 176% remains towards the upper-end of our operating range

Capital



See Appendix 16 for footnotes

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Our resilient Solvency II capital position continues to support investment into our business, with our shareholder capital coverage ratio of 176%, at the top-end of our operating range.

Operating surplus generation is a metric used across the industry.

It comprises the underlying operating surplus emerging from our life companies, and our recurring management actions.

Including recurring management actions is standard industry practice, reflecting the day-to-day balance sheet optimisation we all do to create value.

In 2023 our operating surplus generation totalled £1.1 billion.

Phoenix also has a long track record of delivering value from one-off efficiency actions and M&A integrations. We consider these to be "non-recurring" management actions, which therefore fall outside of Operating Surplus Generation. These totalled £400 million in 2023.

Our closing surplus was £3.9 billion, and this provides us with capacity to invest in our business going forward.

And, as a reminder, our reported surplus includes the accrual of our final dividend.

We expect to deliver a growing level of recurring management actions

Our recurring management actions come from two key areas:

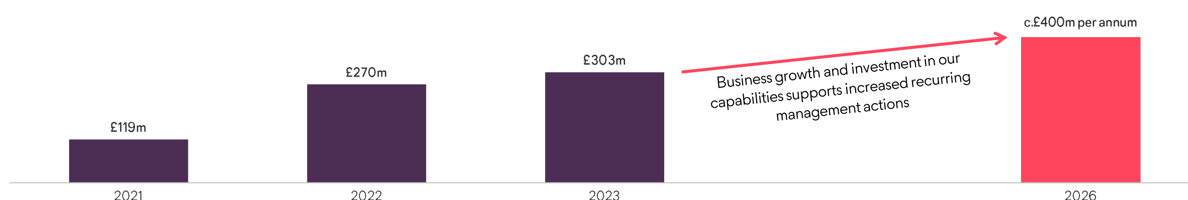
Assets - continuous portfolio optimisation

- Liquid credit: capturing dynamic pricing dislocations across public credit and government bonds between geographies, sectors & ratings
- New business: broadening and diversifying our investable asset universe to deliver enhanced risk adjusted returns

Liabilities - balance sheet efficiency actions

- Capital model efficiencies: ongoing actions as risk profile and regulations evolve
- Non-credit risks: optimise evolving risk exposures using interest and inflation rate hedging tools

Recurring management actions grow as our business and capabilities grow



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I wanted to take some time today to talk about management actions.

They "add value" which means they increase cash, capital and earnings.

Over the last three years, we have developed a highly-skilled in-house asset management team, whose day job is to optimise our assets and liabilities, and improve shareholder returns.

On the slide I have shared some examples of the day-to-day actions we undertake, each and every year.

Which includes optimising our £38 billion credit portfolio, and delivering enhanced returns on the investment of our new BPA assets.

As well as the balance sheet efficiency actions we are more typically known for, such as delivering capital model efficiencies and optimising our hedging.

A small yield pick-up on the assets can cumulate into sizeable management actions, given the long duration of our business.

As you can see on the chart, we have grown the recurring element of our management actions over the past few years to just over £300 million.

Looking forward, we expect to deliver a growing level of recurring management actions, to around £400 million annually by 2026, as we further invest in our capabilities, and grow our business.

Turning next to the impact of Consumer Duty, on slide 15…

Phoenix has undertaken a comprehensive Consumer Duty review of its back-book products and set aside a prudent £70 million provision

Phoenix has a strong track record of delivering good customer outcomes

- Phoenix is a provider of products and services – we do not provide advice
- Delivering value to customers is not new to Phoenix – we have an ongoing programme of product and service reviews
- We have sought to standardise our customer approach across products as we have acquired legacy books
- Over the past seven years, we have provisioned >£200 million to proactively reduce customer charges

Consumer Duty prioritises fair value for customers

Consumer Duty prioritises the concept of **fair value** where the amount paid for the product is reasonable relative to the **overall benefits**

The new duty requires firms to:

- Define measures and criteria of fair value
- Apply these to assess products
- Take corrective action before the regulatory deadlines and on an ongoing basis
  - → July 2023 deadline for open products
  - → July 2024 deadline for closed products

We are on track to comply by July 2024 and do not expect a material financial impact

- ✓ Completed the review across all open products covering 4 million customers, with few changes required ahead of the July 2023 deadline
- ✓ Completed the review across all closed products covering 8 million customers, and identified where we need to cap charges to deliver fair value and improve communications
- ✓ We have been engaging closely with the FCA throughout our review process
- ✓ We are now implementing the changes to meet the July 2024 deadline

Recognised a prudent £70 million of SII capital provision to cover the cost of implementation

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As a retirement savings and income business, we are a provider of products and services, and do not provide regulated advice. Which is important when thinking about the impact of Consumer Duty on our business.

Phoenix has a strong track record of delivering good customer outcomes, with an ongoing programme of product and service reviews.

And we have provisioned over £200 million over the past seven years, to proactively reduce customer charges.

It is important to note that Consumer Duty is focused on delivering fair value for customers, and is not just about charge reductions.

Consumer Duty was effective on our open book last year, with few changes required for compliance. And we are on track for meeting the July deadline on our closed book.

We have completed our comprehensive review across the whole closed book, and have identified some instances where we need to cap charges to deliver fair value and where we can improve our customer communications.

That is why we have taken a prudent £70 million provision to cover the cost of implementing these changes.

We have, as you would expect, engaged closely with the FCA throughout the process.

Turning next to IFRS earnings…

Improved IFRS earnings, including 13% growth in adjusted operating profit

	FY22[5,6]	FY23
Pensions and Savings	£150m	£190m
Retirement Solutions	£349m	£378m
With-Profits	£54m	£10m
Europe and Other	£60m	£132m
Corporate Centre	£(69)m	£(93)m
Adjusted operating profit before tax	**£544m**	**£617m**
Non-operating items:		
Investment return variances and economic assumption changes	£(3,309)m	£147m
Amortisation and impairment of intangibles	£(353)m	£(322)m
Other non-operating items	£(262)m	£(439)m
Finance costs	£(199)m	£(195)m
Profit before tax attributable to non-controlling interest	£67m	£28m
Loss before tax attributable to owners	**£(3,512)m**	**£(164)m**
Tax credit attributable to owners	£855m	£76m
Loss after tax attributable to owners	**£(2,657)m**	**£(88)m**

See Appendix 16 for footnotes

Key messages

- 13% year-on-year growth in adjusted operating profit to £617 million driven by Pensions and Savings and Retirement Solutions
- Europe and Other includes strong investment returns on Group shareholder funds in 2023 of £80 million
- Other non-operating items of £439 million include M&A integration costs, IFRS 17 implementation costs, investment into our growth propositions and other Group project costs
- Significant reduction in IFRS loss after tax due to reduced impact of economic variances from lower market volatility

2023 has seen the adoption of IFRS17 by the insurance sector and an increased focus on earnings.

Today, we have reported a 13% increase in adjusted operating profit, to £617 million.

This was driven by 27% growth in Pensions and Savings to £190 million, supported by growth in assets and expanding margins. And growth in Retirement Solutions, which was up 8% to £378 million.

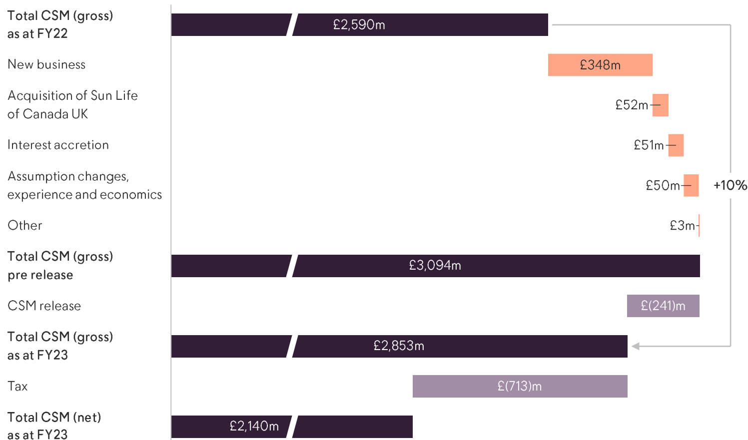
The growth in the Europe and Other segment reflects higher investment returns on our shareholder funds in 2023.

This slide also shows that our non-operating items remain elevated, due to expenditure on planned Group M&A migrations, further IFRS 17 implementation expenses, and investment into growth.

Economic variances were a small positive, reflecting lower interest rates partially offset by adverse variances from equities. And this has driven the reduced IFRS loss after tax of £88 million.

Finishing on the CSM, on slide 17…

10% growth in the Contractual Service Margin (CSM), a store of future profits



Key messages

- Total CSM (gross of tax) of £2.9bn grew 10% (FY22: £2.6bn), primarily due to new BPA business written, positive assumption changes and the acquisition of the Sun Life of Canada UK business in 2023
- The CSM release represents c.8% of the closing CSM (gross of tax) pre release of £3.1bn
- We expect the release of the CSM (gross of tax) to be c.5-7% over time, primarily driven by annuities
- Adjusted shareholders' equity of £4.6bn (FY22: £5.2bn) with a reduction in shareholders' equity to £2.5bn (FY22: £3.2bn), partly offset by growth in the CSM (net of tax) to £2.1bn (FY22: £2.0bn)

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Our Contractual Service Margin or CSM, is £2.1 billion, net of tax. This represents a significant store of future profits that will emerge over time.

On a gross of tax basis, the CSM grew by 10%, supported by strong BPA new business growth, positive assumption changes and the acquisition of Sun Life of Canada UK.

The release of CSM into operating profit was around 8% in the year, and over time we do expect that to normalise to more like 5-7% as annuities become a bigger part of the CSM.

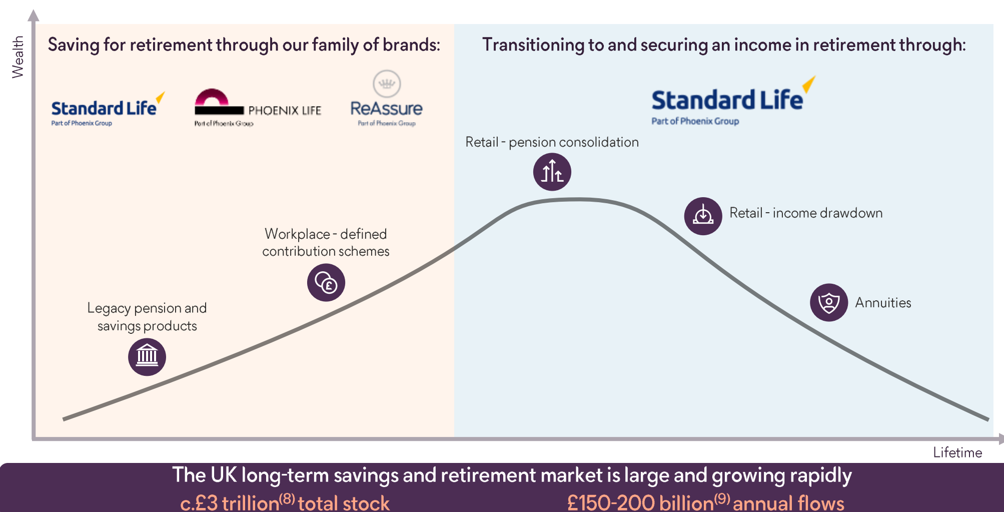
Our earnings performance has resulted in a reduction in adjusted shareholder equity to £4.6 billion in the year, with lower shareholder equity partly offset by the growth in the CSM.

And with that, I will hand you back to Andy for the strategic update.

Strategic update

Andy Briggs
Group Chief Executive Officer

Our strategy is to help people secure a life of possibilities by meeting their savings and retirement income needs from age 18 to 80+



See Appendix 16 for footnotes

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Thanks Rakesh.

It is important to start by saying our strategy is unchanged.

We have a single strategic focus – to help people secure a life of possibilities.

Which is why we are building a business that can support customers, across every stage of their savings lifecycle, from age 18, to 80+.

We will do this by offering them the products and services they need, as they save for, transition to, and secure an income in retirement.

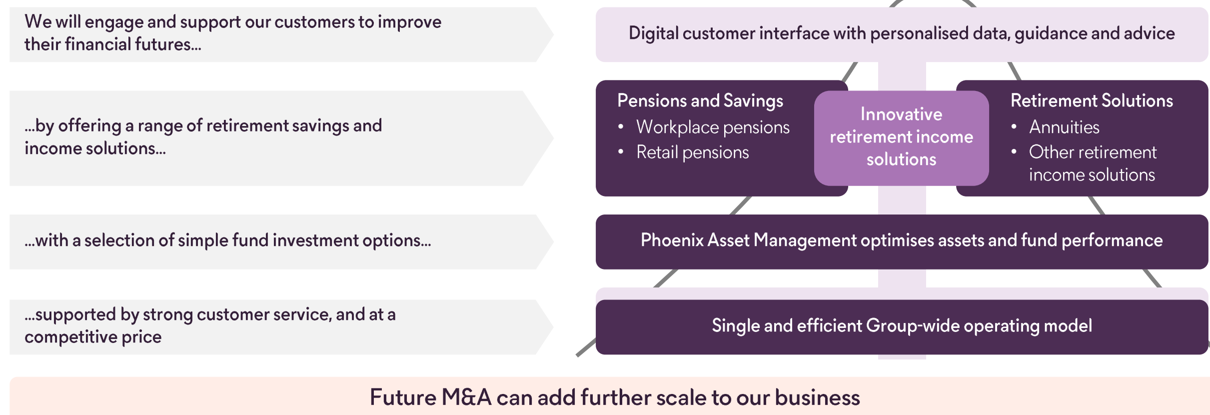
And we are the only business seeking to do solely this, at scale.

Importantly, this market is already huge today, with an estimated £3 trillion of stock.

And it is structurally growing, due to an aging population, with around £150 to £200 billion of annual flows.

So, a significant growth opportunity, which we are well placed to leverage.

Our vision is to become the UK's leading retirement savings and income business



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Our vision is to become the UK's leading retirement savings and income business.

And we start with strong foundations, that we have built over the past few years.

Our capital-light, fee-based, Pensions and Savings business already has around £175 billion of assets, and generates just under £200 million of IFRS adjusted operating profit. And this grew over 25% last year, as we delivered both growing assets, and an expanding margin, with the benefit of operating leverage.

While our spread-based Retirement Solutions business is capital utilising and highly profitable. And we choose to keep it to a small proportion of our total assets, currently about 14%.

So, what do we need to do to get to our long-term vision?

Well, we start with the customer, and what it is they tell us they need.

And it is clear from our research and customer feedback, that people need help to understand where they are on their financial journey, and solutions to improve their financial futures.

To win in this market, we therefore need to offer a compelling customer experience.

That means offering the complete range of retirement savings and income solutions, with a selection of simple fund investment options, supported by strong customer service, on a slick digital platform. And which is sold at a competitive price.

And that requires us to add to the strong capabilities we have already built, and evolve our business, through building the remaining capabilities required, to deliver a truly full-service customer proposition.

When we do that, we will become the UK's leading retirement savings and income business.

Our strategy will deliver this vision organically, and means we are no longer reliant on M&A for growth, in the way we were when I joined.

M&A can add further scale to our business, and create shareholder value, which is attractive. But the bar for acquisitions is now much higher, as we have a range of organic growth opportunities in which to deploy excess cash, at very attractive returns.

We are building the required capabilities on the journey to our vision

Key capabilities	2020	2023	2026
M&A execution and integration	✓	✓	✓
Trusted and well-known consumer brand – Standard Life	✗	✓	✓
Competitive and capital-efficient annuities business	✗	✓	✓
Established and growing capital-light Workplace business	✗	✓	✓
In-house asset management capability	✗	✓	✓
Innovative retirement income solutions	✗	✗	✓
Attractive Retail market propositions	✗	✗	✓
Digital customer interface with personalised data, guidance and advice	✗	✗	✓
Single and efficient Group-wide model operating model	✗	✗	✓

Integrate and Build (2020 → 2023)

Grow, Optimise and Enhance (2023 → 2026)

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The journey to our vision has required us to build new capabilities.

Back in 2020, we had a single core capability, which was executing M&A and integrating those businesses. And there is still nobody in this industry better at doing that than Phoenix.

What we have done over the past three years is to build a number of sustainably growing organic businesses too.

This has seen us acquire, and invest in, the trusted Standard Life brand, and reestablish it amongst customers, corporates and advisers.

And we have used that brand to help turbo-charge our growth, as we built a competitive and capital efficient annuities business, followed by our now large, and rapidly growing capital-light Workplace business.

On top of that, we have built a highly-skilled in-house asset management capability, enabling us to optimise our strategic asset allocation, and our third-party asset manager partnerships. And to create long-term value, through optimising our £38 billion shareholder credit portfolio.

All of which supports our ability to deliver recurring management actions, into the long term.

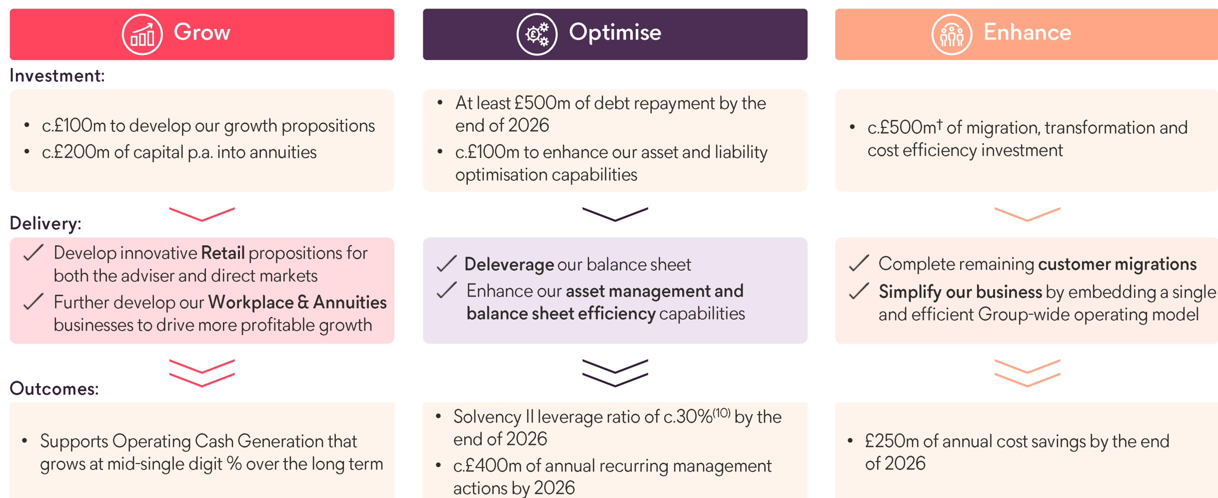
The next phase of our strategy is therefore about building on the strong foundations we have developed, and completing our full-service customer offering.

We will do this by building an innovative range of retirement income solutions, and a compelling

set of Retail propositions, supported by a digital customer interface, with personalised data, guidance and advice.

And as I said earlier, we are also now at the stage where we can further simplify our organisational structure, through integrating our Heritage and Open businesses, onto a single Group-wide operating model.

So, turning to the investments we will make, on slide 22…



In order to deliver the next phase of our strategy, we will balance the investment of our surplus Group cash across our strategic priorities, in order to both deliver on our Purpose, and realise strong shareholder returns.

Our first strategic priority is to grow. And here we will invest around £100 million, over the next three years, into developing our growth propositions.

Most of this will be allocated to developing a range of attractive Retail propositions, as we build the final pillar of our full-service customer offering.

There are two Retail markets we need to target.

The first is the adviser market, for the 10% of customers who pay for advice at retirement. Here we are bringing together the capabilities of our Retirement Solutions, and Pensions & Savings businesses, to develop a range of innovative retirement income solutions, that advisers can offer to their clients.

The second is the direct-to-consumer market, for the 90% of customers who do not utilise a paid adviser at retirement. And here we need to build the tools to engage and support them.

This Retail market is huge. Indeed, it's about half of the £150 to £200 billion of annual market flows I referred to earlier.

And with 1-in-5 UK adults already a Phoenix Group customer, I am really excited about this

opportunity to further accelerate our growth, in line with our Purpose.

Alongside very strong growth in our capital light Pensions and Savings business, we will continue to grow our annuities business, to take advantage of the strong demand from corporates and consumers in this market. But we remain focused on delivering balanced new business growth, and keeping annuities to a small proportion of our balance sheet.

And due to the success we have had in achieving our BPA capital strain target, of less than 3% two years early, we are now choosing to invest less capital going forward.

With around £200 million of capital annually, enabling us to broadly maintain our current volumes.

This combined investment will support us in delivering sustainable, mid-single digit growth in operating cash generation, over the long term.

Our second strategic priority is optimise.

Here we plan to continue our approach of repaying M&A-related debt with surplus cash, with at least £500 million of debt repayment by the end of 2026, on top of the £800 million we have repaid since 2020.

This will support us in getting to our 30% Solvency II leverage ratio target.

And with our cost of capital elevated at present, it delivers strong risk-adjusted returns, when compared to other immediate growth opportunities.

We will also invest around £100 million to further develop our capabilities in asset and liability optimisation. This includes direct origination of liquid and illiquid credit, and further investment into our modelling systems and capabilities.

And this will support us in delivering increased recurring management actions, over the long term, with around £400 million per annum expected by 2026.

Our third strategic priority is enhance.

Here our focus is on delivering our remaining migration and transformation programmes.

As well as integrating our businesses onto a single Group-wide operating model, to realise additional cost efficiencies.

We will therefore invest around £500 million into our Group migration, transformation and cost efficiency programmes over the next three years. With around £300 million of this being costs that we have previously guided to.

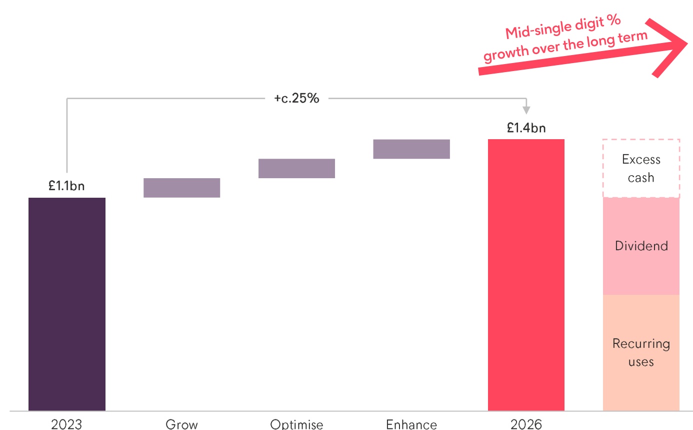
And our continued focus on cost efficiency means that we now expect to be able to deliver £250 million of annual cost savings by the end of 2026, which will enhance all of our key reporting metrics, as Rakesh will outline shortly.

We are already cost efficient today, and these additional cost savings will further strengthen our competitive advantage.

And finishing with what this all means for our shareholders, on slide 23...

Our strategy delivers sustainable, growing Operating Cash Generation which supports a progressive dividend

Strong growth in Operating Cash Generation



The Board has evolved Phoenix's dividend policy to reflect the confidence it has in the Group's strategy:

Phoenix Group's new dividend policy

The Group operates a progressive and sustainable ordinary dividend policy[1]

See Appendix 16 for footnotes

Phoenix

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As I said in my introduction, Operating Cash Generation is our new primary metric.

This is the sustainable level of cash generation from our life companies, which funds our recurring group uses, and pays our growing shareholder dividend, with excess cash to spare.

We are targeting strong growth in Operating Cash Generation of 25% over the next three years, as we grow, optimise and enhance our business.

After which, we then expect it to grow at a mid-single digit growth rate, over the long term.

And this sustainably growing operating cash generation, is what now gives the Board the confidence to move to our new progressive and sustainable ordinary dividend policy. With a clear intention to grow our dividend every year.

I will now hand you back to Rakesh, who will talk through the financial outlook in more detail...

Financial outlook

Rakesh Thakrar
Group Chief Financial Officer

We have a new capital allocation framework for the next phase of our strategy

- ✓ Operate a progressive and sustainable ordinary dividend policy[(1)]
- ✓ Strong and resilient balance sheet: 140-180% Shareholder Capital Coverage Ratio operating range

2024-2026 investment priorities:

Invest to grow	Invest to optimise	Invest to enhance
• c.£100m into growth propositions • c.£200m of capital p.a. into annuities	• At least £500m of debt repayment by the end of 2026 • c.£100m to enhance our asset and liability optimisation capabilities	• c.£500m† of migration, transformation and cost efficiency investment

Surplus capital allocation approach:

Allocate surplus capital to the highest return opportunities

- Investment into growth
- Further deleveraging
- M&A
- Share buybacks

See Appendix 16 for footnotes
† Includes c.£300m of remaining planned integration costs previously guided to

Phoenix

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Thanks Andy

We are today introducing a new capital allocation framework that will support the next phase of our strategy.

There are two key underpins to our framework.

The first is that we will operate a progressive and sustainable ordinary dividend policy.

And the second is that we will maintain our strong and resilient balance sheet, with a 140-180% shareholder capital coverage ratio operating range.

Andy has already outlined a clear set of priority investments that we will make over the next three years, balanced across our strategic priorities of grow, optimise and enhance.

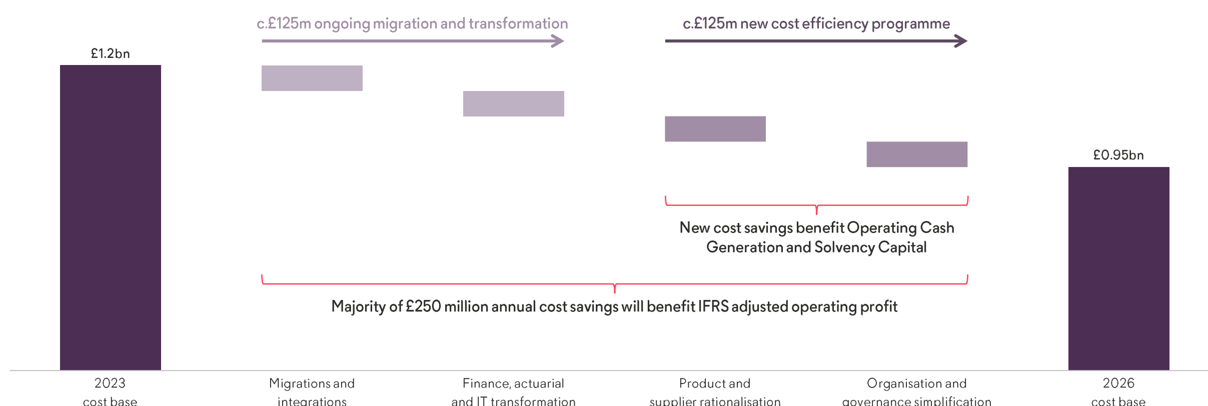
We believe this is the best allocation of our capital, to both deliver attractive returns for our shareholders, and deliver on our Purpose.

Surplus capital that is available, over and above these investment priorities, will be allocated to the highest return opportunities.

This could include investing more into growth, further deleveraging, M&A, or share buybacks.

As we invest to enhance, we expect to deliver £250 million of cost savings that improve the key metrics across our financial framework

We expect to deliver £250 million of annual cost savings by the end of 2026, net of inflation



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We expect to deliver £250 million of annual cost savings by the end of 2026, which are broadly split into four buckets, as outlined on the chart.

Almost half the savings are ongoing migration and transformation cost savings, that we expect to be realised over the coming years.

The other half is new, and comes from product and supplier rationalisation, and organisational and governance simplification. This is the work to integrate our businesses on to a single Group-wide operating model, that Andy mentioned earlier.

Over time, these cost savings will flow through to all of our key metrics, across our financial framework of cash, capital and earnings.

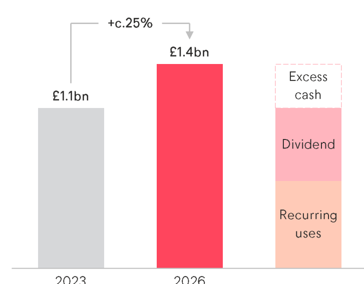
We expect around half of the cost savings to benefit Operating Cash Generation and Solvency capital, as most of the ongoing migration and transformation savings have already been reserved for.

And our operating profit will benefit from the majority of the £250 million, as the savings are delivered.

We will deliver a clear set of financial outcomes for our shareholders

Cash

Growing Operating Cash Generation that more than covers our recurring uses and dividend



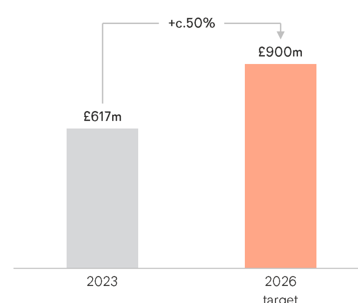
Capital

Resilient balance sheet supports investment to grow, optimise and enhance our business

- ✓ 140-180% Shareholder Capital Coverage Ratio operating range
- ✓ Solvency II leverage ratio of c.30%(10) by the end of 2026

Earnings

Growing IFRS adjusted operating profit



See Appendix 16 for footnotes

Phoenix

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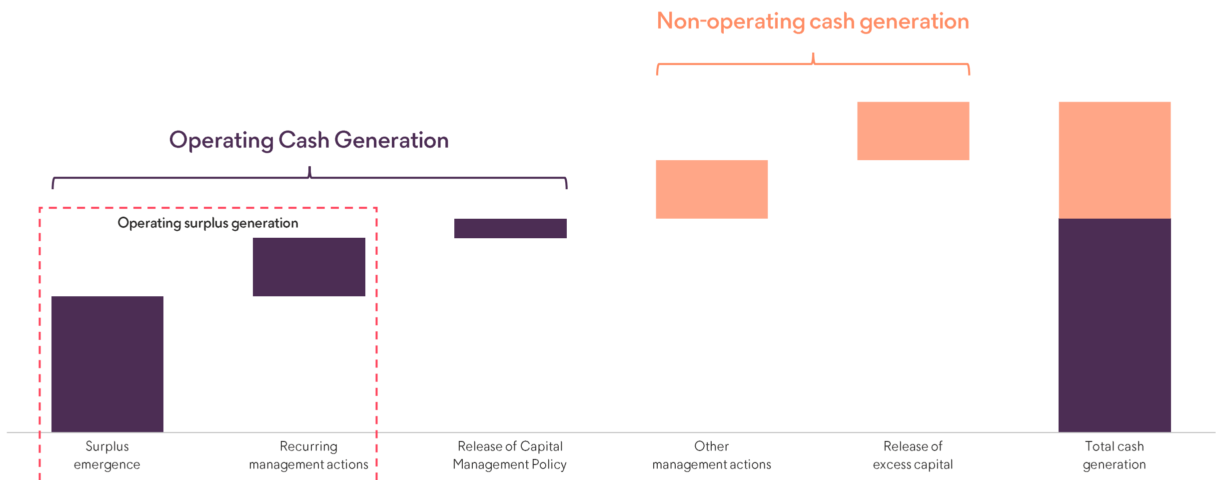
We are today introducing our evolved financial framework that focuses on the three financial outcomes we deliver for our shareholders: cash, capital and earnings.

Phoenix has always managed its business for cash and capital, but we have evolved our key metrics to provide clearer line of sight to the underlying business performance and more comparability with peers.

We are also elevating the importance of IFRS earnings in our framework, following the transition to IFRS 17.

And we are today setting our first ever IFRS earnings target, with a target of £900 million in 2026, a 50% increase.

We are introducing Operating Cash Generation as a new metric to demonstrate the long-term sustainability of our business model



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As Andy explained earlier, we are introducing operating cash generation as a new metric to demonstrate the long-term sustainability of our business model.

Our operating cash generation includes the ongoing surplus emergence that is created in our life companies, comprising the margins we earn on our products and the release of the Solvency capital requirements.

On top of that, and in line with standard industry practise, we include our recurring management actions. Which, as I outlined earlier, are the sustainable actions that we will generate year-in, year-out, into the long term.

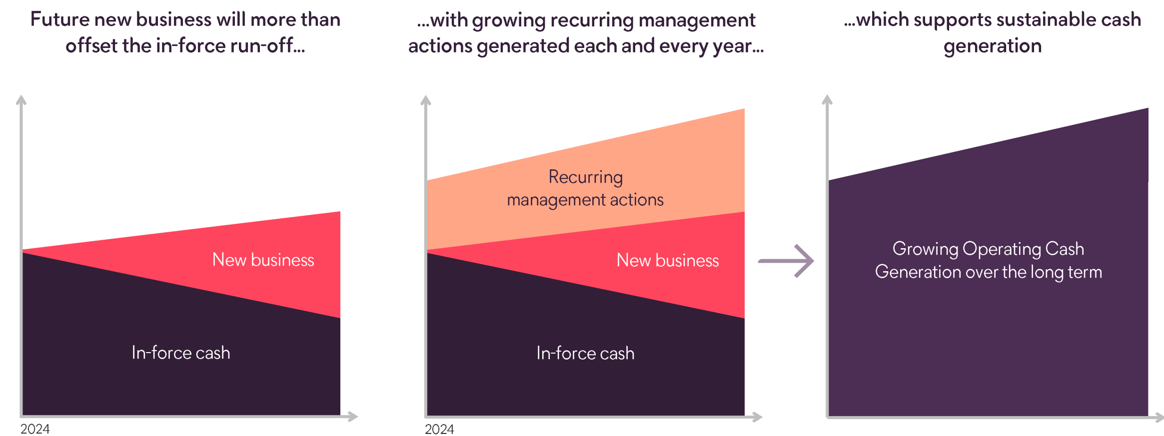
There is also a cash contribution from the release of the capital management policy that we hold in our life companies.

Non-operating cash generation comprises other management actions that we do not define as recurring, such as our M&A integration synergies.

As well as the release of historic excess capital, that has built up in our life companies over time.

The two added together make-up total cash generation, which in 2023 was £2 billion.

We will deliver sustainable, growing Operating Cash Generation



New disclosure: profile of 2023 in-force and new business cash emergence available in Appendix (page 43)

Phoenix

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We are confident in delivering sustainable, growing Operating Cash Generation.

And so we thought it would be useful to show the evolution of this metric through a familiar diagram.

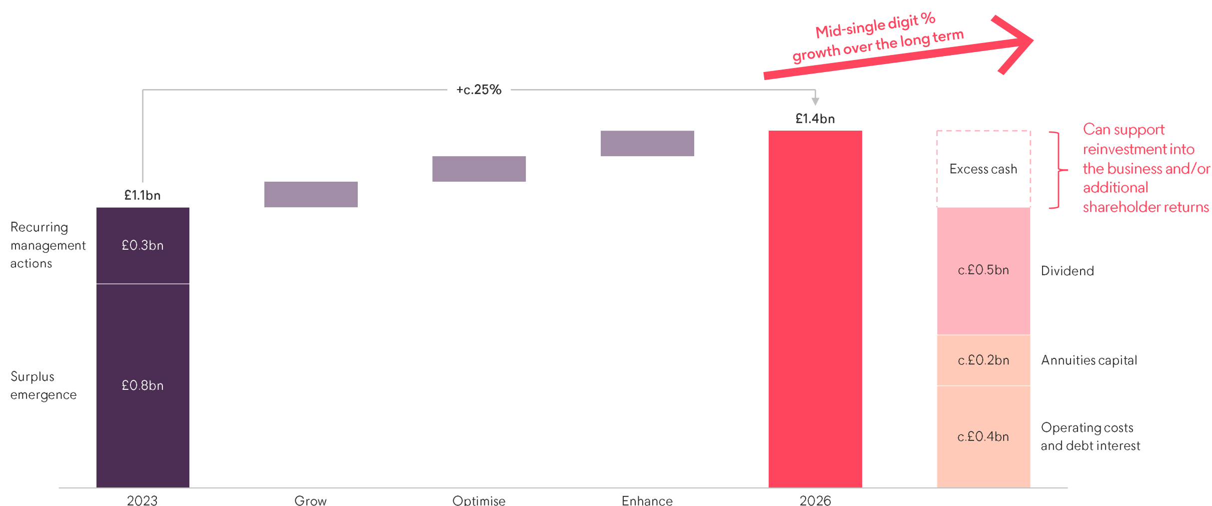
As you would expect from a growing business, the cash emergence from our future new business will continue to more than offset the in-force business run-off.

On top of that, we expect to grow our recurring management actions to around £400 million by 2026, supported by the investment in our capabilities and ongoing business growth.

Which means that our operating cash generation will sustainably grow over the long term.

And we will accelerate that growth over the next few years, through our cost savings programme.

We also wanted to address the feedback we have received, by sharing some new cash emergence disclosure in the appendices to this presentation, which includes the timing profile of our 2023 in-force and new business cash emergence.



I just wanted to explain in more detail the investments we are making into our strategic priorities to drive a 25% increase in operating cash generation over the next three years.

From £1.1 billion in 2023, to a targeted £1.4 billion in 2026.

We will deliver this through a combination of:

- Grow: from our Retirement Solutions and Pensions & Savings new business;
- Optimise: from the delivery of increased recurring management actions, with a £100 million annual increase expected by 2026;
- and Enhance: from the benefit of around £125 million of the cost savings I mentioned earlier.

We expect to see progress every year, with a bigger step-up in 2026 as the full cost saving run-rate benefits emerge.

Importantly, operating cash generation more than covers our recurring uses and annuity capital allocation, as well as our growing dividend.

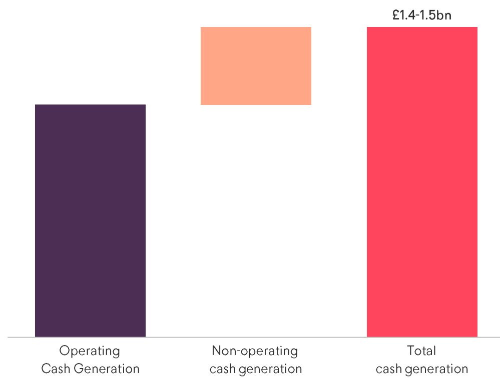
And generates excess cash, which can support reinvestment into the business and/or additional

shareholder returns.

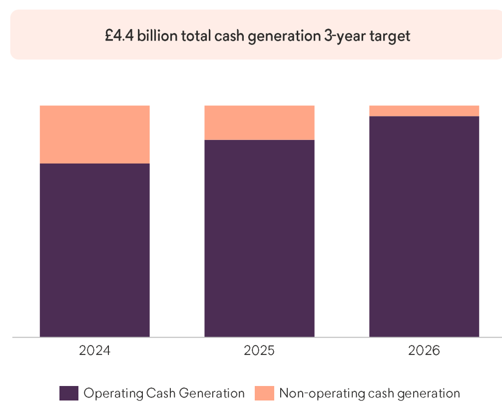
Moving next to total cash generation…

We are setting clear targets for total cash generation over the next three years

2024 total cash generation target



We will generate cash generation equivalent to c.90% of our current market cap across 2024-26



Charts not to scale

Phoenix

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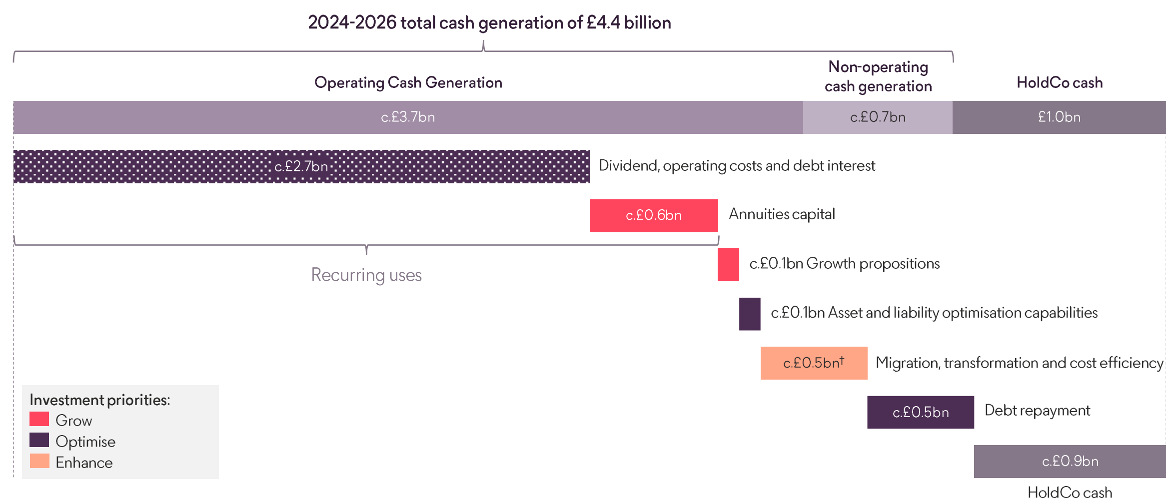
While operating cash generation is our primary metric, total cash generation remains important, as we invest in the next phase of our strategy.

We expect to continue delivering high-levels of total cash generation, with a one-year target of £1.4 to £1.5 billion in 2024, and a three-year target of £4.4 billion.

So looking next at our uses of this cash on slide 32...

Operating Cash Generation more than covers our recurring uses and generates surplus to invest into our business

Cash



† Includes c.£300m of remaining planned integration costs previously guided to

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Of that £4.4 billion target, we expect around £3.7 billion to come from operating cash generation.

This will more than cover our recurring uses that include our growing dividend, operating costs and debt interest, as well as our planned investment of around £200 million into annuities each year, reflecting our lower strain.

That means we will be generating surplus cash on an operating basis over the next three years.

Which together with non-operating cash generation of £700 million, provides us with a significant surplus that we can invest across our strategic priorities, as we have already outlined.

And as a reminder, around £300 million of the migration, transformation and cost efficiency spend is the remainder of the integration costs we have previously guided to.

The investment spend is more front-end loaded, but the phasing of our three-year cash generation comfortably allows for this.

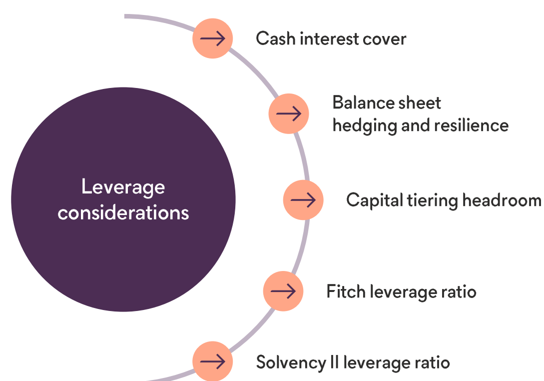
Our HoldCo cash position is a healthy £1 billion today, providing us with financial flexibility. We expect this to remain broadly consistent over the three-year period.

Looking next at leverage, on slide 33…

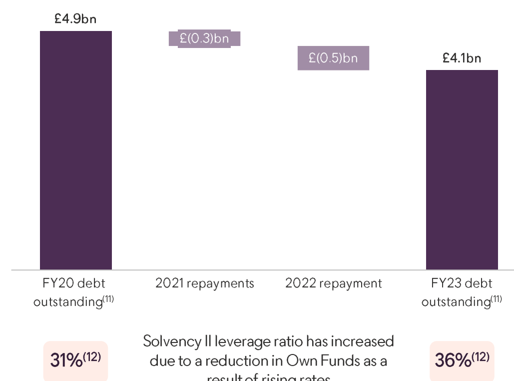
We manage our leverage position across a range of metrics and have a track record of repaying M&A-related debt

Capital

We manage our leverage position by considering a range of factors...



...and our approach is to pay down M&A-related debt as we generate surplus cash



See Appendix 16 for footnotes

Phoenix

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We manage our leverage position by balancing against capital and liquidity, and then considering a range of factors.

This includes our cash interest cover, the interplay of our balance sheet hedging, and our capital tiering headroom.

It also includes a number of output metrics, such as the Fitch leverage ratio and the Solvency II leverage ratio.

Our approach to leverage has always been to gear-up for M&A and then pay down that debt with surplus cash as it emerges.

And over the past three years we have repaid nearly £800 million of debt.

Despite reducing our absolute debt levels, our Solvency II leverage ratio has increased from 31% in 2020, to 36% today.

This is due to the impact of higher interest rates on our Own Funds, which we do not hedge. As our hedging strategy is designed to protect our surplus and therefore our dividend.

We have a clear deleveraging approach and are targeting a Solvency II leverage ratio of c.30%(10) by the end of 2026

Capital

We plan to repay at least £500 million of M&A-related debt by the end of 2026

We are targeting a Solvency II leverage ratio of c.30%(10) by the end of 2026

Key messages

- We expect to repay the Tier 2 bond that is callable in June 2024, subject to regulatory approval, and will consider further deleveraging options in 2025 and beyond
- £500 million of debt repayment is equivalent to a pro forma Solvency II leverage ratio of c.31%
- We would expect a c.1% point reduction in the Solvency II leverage ratio for every 100bps reduction in long-term rates
- We will also continue to monitor our Fitch leverage ratio (FY23: 23%(13)) and will seek to maintain an investment grade credit rating

See Appendix 16 for footnotes

Phoenix

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We plan to continue repaying M&A-related debt with surplus cash, and therefore want to issue clear guidance today, of our intention to repay at least £500 million of debt by the end of 2026.

We expect to repay the £250 million Tier 2 bond that is callable in June, subject to regulatory approval. And will look at further repayment opportunities across 2025 and 2026.

This will support us in getting to around a 30% Solvency II leverage ratio by the end of 2026, on a regulatory basis.

Which is a steady-state level that we will feel is appropriate for our business, absent M&A.

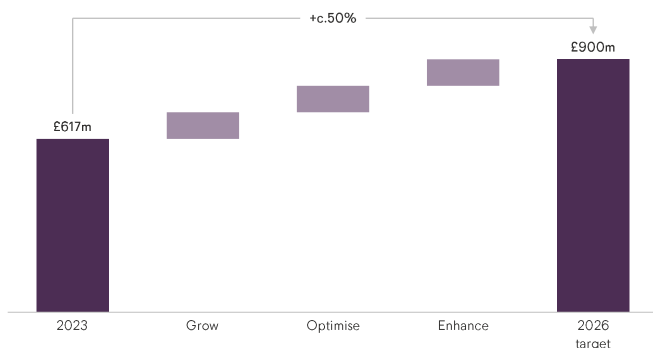
This debt repayment will reduce our Solvency shareholder ratio, by around 10 percentage points all other things equal, and we will therefore remain comfortably within our operating range.

And of course, if we choose to pre-finance any future calls or maturities then our deleveraging path may not be fully linear.

Turning next to our IFRS earnings, on slide 35...

We are targeting IFRS adjusted operating profit growth of c.50% by 2026

Targeting IFRS adjusted operating profit of £900m in 2026



Key messages

- Adjusted operating profit will grow over time, as we grow, optimise and enhance our business
- Elevated non-operating items will reduce in 2027+:
  - Expect some reversal of recent adverse economics if interest rates normalise
  - Amortisation of intangibles run-off at c.8% p.a.
  - No material other non-operating items expected in 2027+
  - Finance costs expected to remain stable as we deleverage
- Strong CSM growth supports adjusted equity that is broadly stable near-term and which grows over the long term

Shareholders' equity will decline near-term due to elevated below-the-line items, but is expected to remain positive over the long term

Phoenix

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The transition to IFRS 17 means the market is placing more weight on insurers' IFRS earnings.

So let me explain how our earnings will evolve over time.

The investment we are making across our strategic priorities, will support growth in adjusted operating profit.

We are targeting £900 million of IFRS adjusted operating profit in 2026, a 50% increase from today.

Delivered through a combination of:

- Grow: from continued new business growth in Retirement Solutions and Pensions & Savings;
- Optimise: from the delivery of increased recurring management actions over the long term, and
- Enhance**:** through the benefit of the majority of the £250 million cost savings we expect to deliver.

As I explained earlier, we have an elevated level of non-operating items at present, but once we are through our investment phase over the next three years, these will normalise, as outlined on the

slide.

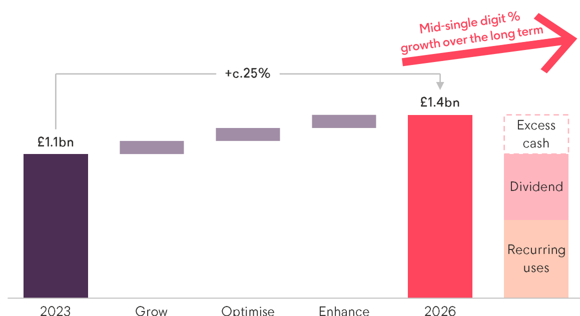
Our shareholders' equity will decline over the coming years. However, we do expect it to remain positive over the long term.

Most importantly, we believe that adjusted equity, inclusive of the CSM, is a far better measure for life insurance companies in an IFRS17 world than shareholder equity.

And we expect our adjusted shareholder equity will remain broadly stable near-term, and then begin to grow. Supported by strong future CSM growth from our annuities business and future management actions.

We will deliver a clear set of financial outcomes for our shareholders

Growing Operating Cash Generation supports our new progressive dividend policy



Phoenix Group's new dividend policy

The Group operates a progressive and sustainable ordinary dividend policy[1]

We have a clear set of supporting targets

Cash
- ✓ £1.4-to-£1.5 billion of total cash generation in 2024
- ✓ £4.4 billion of total cash generation across 2024-2026

Capital
- ✓ 140-180% Shareholder Capital Coverage Ratio operating range
- ✓ Solvency II leverage ratio of c.30%[10] by the end of 2026

Earnings
- ✓ Targeting £900 million of IFRS adjusted operating profit in 2026
- ✓ £250 million of annual cost savings by the end of 2026

See Appendix 16 for footnotes

So, to conclude with the financial outcomes for shareholders.

We are embarking on the next phase of our strategy to deliver on our vision, as we balance our investment to grow, optimise and enhance our business.

We will deliver a clear set of financial outcomes for our shareholders, including £1.4 billion of Operating Cash Generation in 2026, that will then grow at a mid-single digit growth rate over the long term.

And which is underpinned by the other targets we have set today, across our evolved financial framework of cash, capital and earnings.

With that, I will now hand you back to Andy for the summary.

Summary

Andy Briggs
Group Chief Executive Officer

Our vision is to become the UK's leading retirement savings and income business

1	Phoenix is on a journey, as we transition from a closed-book life consolidator to a purpose-led retirement savings and income business
2	We have made significant progress in executing our strategy, as our strong 2023 financial results demonstrate
3	We are balancing our future investment across our strategic priorities as we grow, optimise and enhance our business
4	Our strategy delivers sustainable, growing Operating Cash Generation that more than covers our recurring uses
5	Phoenix will now operate a progressive and sustainable ordinary dividend policy

Phoenix

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Thanks Rakesh

In summary.

We have a crystal-clear vision here at Phoenix – we want to become the UK's leading retirement savings and income business.

We are therefore on a journey, as we transition from being a consolidator of closed-book life insurance businesses, to a sustainably growing, purpose-led, retirement savings and income business.

And we have made significant progress in executing our strategy to date, as our strong 2023 financial results demonstrate.

Looking forward, we have surplus cash available to invest, to deliver the next phase of our strategy.

And so we are balancing our investment across our three strategic priorities, as we grow, optimise and enhance our business.

This investment delivers attractive financial outcomes for our shareholders, with sustainable, growing Operating Cash Generation over the long term, that more than covers our recurring uses.

Which gives the Board the confidence to move to a progressive and sustainable ordinary dividend policy, with a clear intention to grow our dividend every year.

Phoenix has transformed significantly over the past three years, and we are excited about the next phase of our evolution, as we journey towards our ambitious vision.

And with that, we will move to questions.

Q&A

So, we will start with questions from the audience in the room.

If you can raise your hand if you have a question, and we will direct one of our roaming microphones to you. Please can you start by introducing yourself and the institution you represent.

And for anyone watching on the webcast, please use the Q&A facility and we will come to your questions after we've answered those in the room.

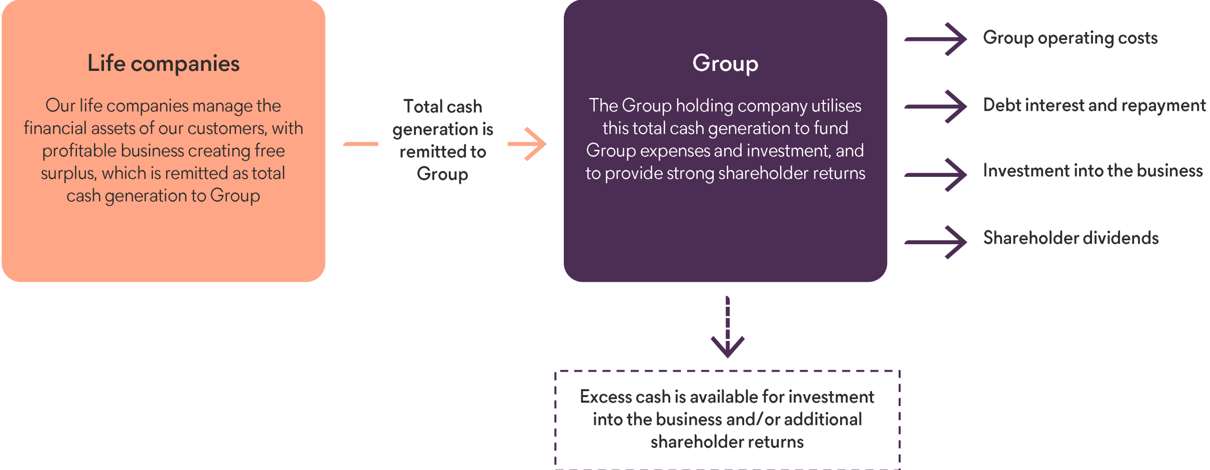
Cash appendices

Phoenix

Cash appendices

1. Cash generation definition
2. Profile of 2023 in-force and new business cash emergence
3. Group cash flow analysis
4. Change in Life Company Free Surplus
5. 3-year total cash generation targets across 2021-2025

Phoenix


Appendix 1: Cash generation definition
Life companies
Our life companies manage the financial assets of our customers, with profitable business creating free surplus, which is remitted as total cash generation to Group
Total cash generation is remitted to Group
Group
The Group holding company utilises this total cash generation to fund Group expenses and investment, and to provide strong shareholder returns
Group operating costs
Debt interest and repayment
Investment into the business
Shareholder dividends
Excess cash is available for investment into the business and/or additional shareholder returns
Phoenix
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Appendix 2: Profile of 2023 in-force and new business cash emergence

	Years 1-3	Years 4-10	Years 11-15	Years 16-20	Years 20+	Lifetime
In-force Operating Cash Generation as at 31 December 2023	c.£2.2bn	c.£3.8bn	c.£2.6bn	c.£2.1bn	c.£4.0bn	c.£14.7bn
Recurring management actions over the long term	c.£400m per annum by 2026					
In-force non-operating cash generation	c.£0.7bn					c.£0.7bn
Expected cash emergence from Pensions and Savings[1] new business (based on volume written in 2023)	c.£100m	c.£170m	c.£80m	c.£50m	c.£50m	c.£450m
Expected cash emergence from Retirement Solutions new business (based on volume written in 2023)	c.£125m	c.£300m	c.£200m	c.£175m	c.£250m	c.£1,050m

[1] Includes Pensions and Savings, Europe and SunLife

Key messages

- c.£14.7bn of cash from our 2023 in-force business, including an uplift from 2033 (year 10) when TMTP relief ends
- We also expect to generate growing recurring management actions with at least c.£400m in 2026, supported by the investment in our capabilities and growth in our business
- In addition, there is incremental future cash emergence from the c.£125m of annual cost savings that will benefit our in-force and new business cash emergence by 2026
- We expect to deliver sustainable new business growth over time with the cash emergence more than offsetting the run-off of the in-force business

Appendix 3: Group cash flow analysis

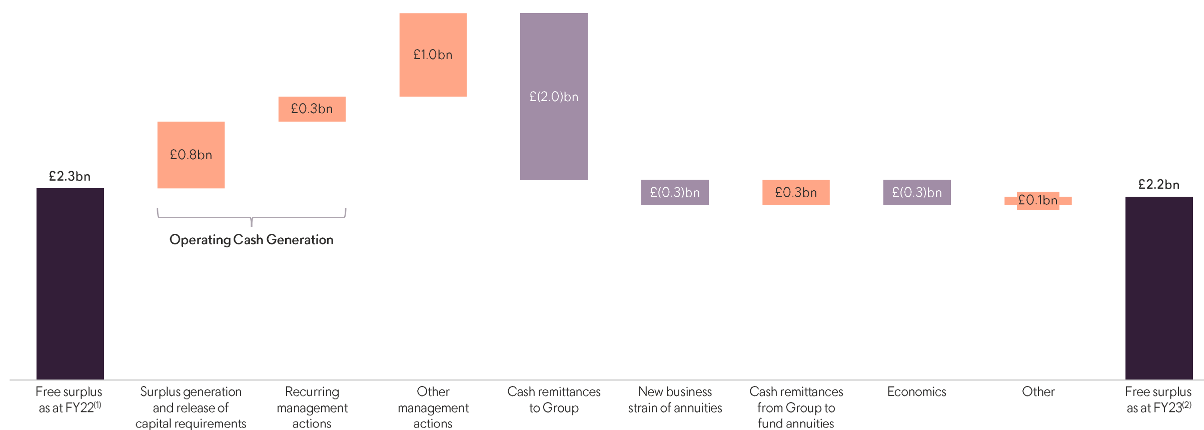
	FY23
Cash and cash equivalents at 1 January	**£503m**
Total cash generation[1]	**£2,024m**
Uses of cash:	
Operating expenses	£(97)m
Pension scheme contributions	£(16)m
Debt interest	£(229)m
Non-operating net cash outflows	£(111)m
Shareholder dividend	£(520)m
Debt repayments	£(350)m
Debt issuance	£346m
Total uses of cash	**£(977)m**
Support of BPA activity	£(288)m
Cost of acquisitions	£(250)m
Closing cash and cash equivalents at 31 December	**£1,012m**

[1] Total cash generation includes £219 million received by the holding companies in respect of tax losses surrendered

Key messages

- Strong total cash generation of £2,024 million in the period funds our uses of cash
- Non-operating net cash outflows of £111 million (FY22: £395 million net cash outflow) include:
  - £196 million of net collateral cash and hedge close-outs
  - £(307) million of centrally funded projects and investments, inclusive of £129 million of costs in relation to legacy platform migrations, £18 million for other ongoing integration programmes including ReAssure and Sun Life of Canada UK, £56 million of investment related to our growth propositions and £12 million for our Finance Transformation
- Paid £250 million of consideration to complete cash-funded acquisition of Sun Life of Canada UK

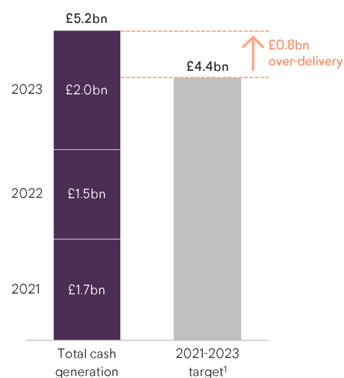
Appendix 4: Change in Life Company Free Surplus

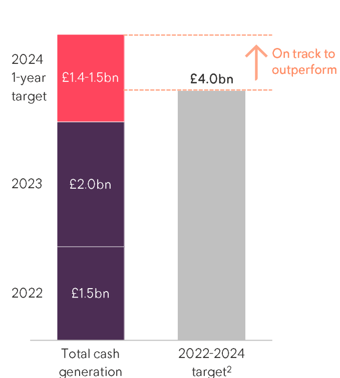


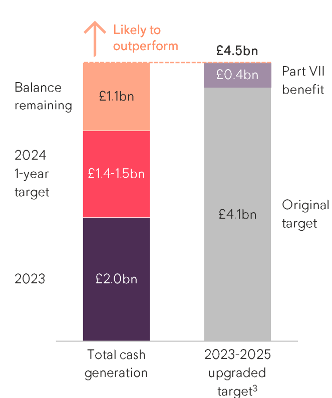
[1] 31 December 2022 Life company Free Surplus is an estimated position and reflects a dynamic recalculation of transitionals as at 31 December 2022. Had the dynamic recalculation not been assumed, the Life Company Free Surplus would increase by £0.1bn

[2] 31 December 2023 Life company Free Surplus is an an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2023

Appendix 5: 3-year total cash generation targets across 2021-2025







[1] 2021-2023 target set in March 2021
[2] 2022-2024 target set in March 2022
[3] 2023-2025 target upgraded from £4.1bn to £4.5bn in November 2023 following completion of funds merger through Part VII transfer of Standard Life and Phoenix Life businesses into a single entity

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Other appendices

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Other appendices

1. Debt maturity profile as at 31 December 2023
2. Movement in assets under administration
3. Movement in assets under administration by segment
4. Movement in assets under administration by segment (Pensions and Savings)
5. Estimated PGH Solvency II surplus and coverage ratios
6. Change in Solvency II Own Funds and SCR
7. Additional Solvency II disclosures
8. PGH Solvency II Shareholder Capital Coverage Ratio sensitivities
9. Movement in adjusted shareholders' equity
10. 2023 operating profit drivers
11. Movement in Group Contractual Service Margin, including segmental split
12. Shareholder credit portfolio
13. Diversification of illiquid asset portfolio as at 31 December 2023
14. ESG ratings and collaborations
15. 2024 sustainability commitments
16. Footnotes

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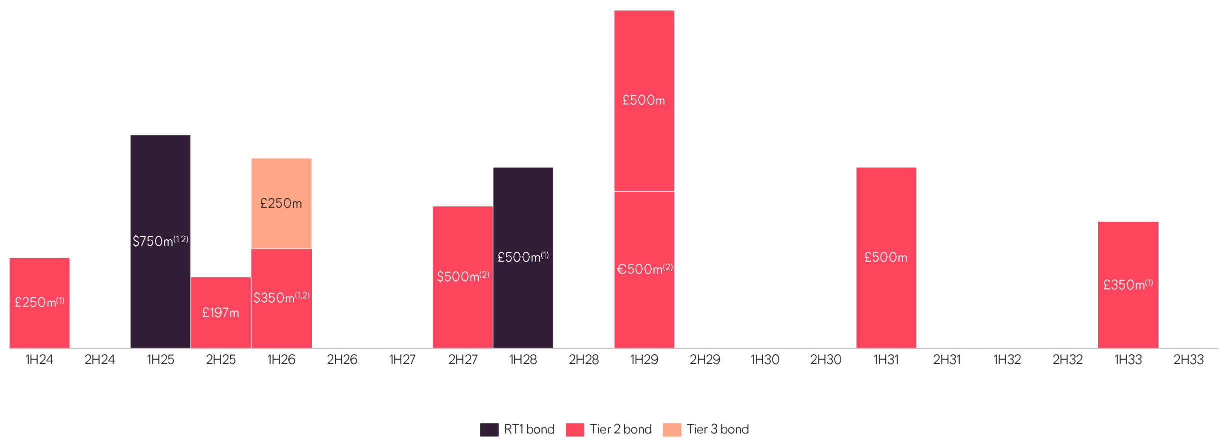
Appendix 1: Debt maturity profile as at 31 December 2023

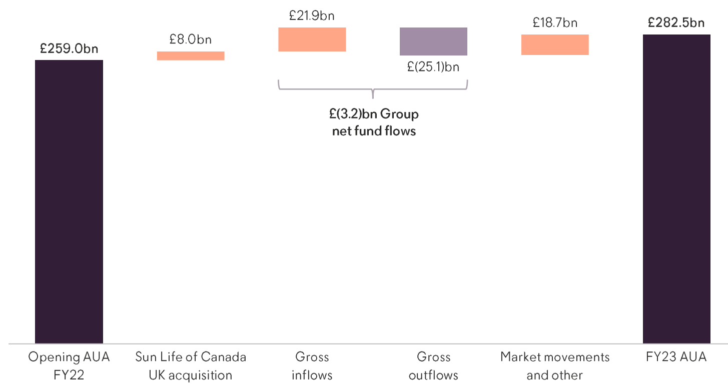


RT1 bond Tier 2 bond Tier 3 bond

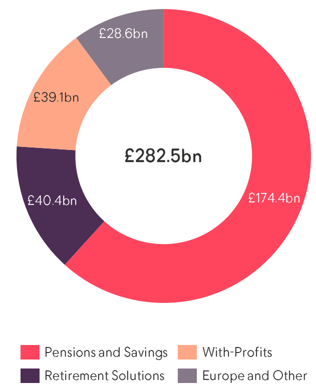
[1] First optional redemption
[2] All currency debt converted into GBP based on the closing 31 December 2023 exchange rates

Appendix 2: Movement in assets under administration

Movement in AUA from 1 January 2023 to 31 December 2023

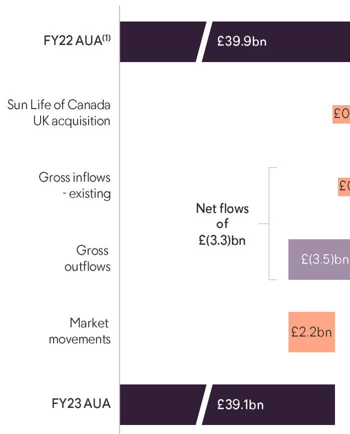


Split by segment

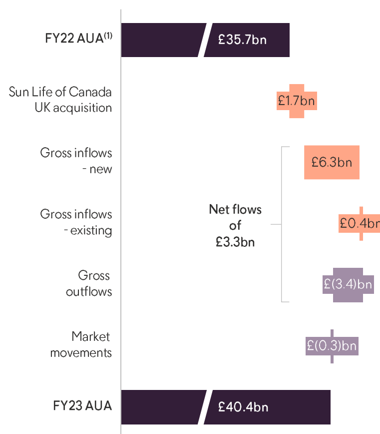


Appendix 3: Movement in assets under administration by segment

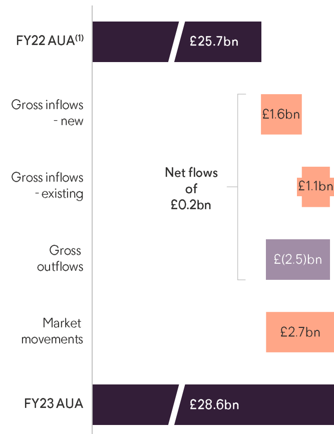
With-Profits



Retirement Solutions



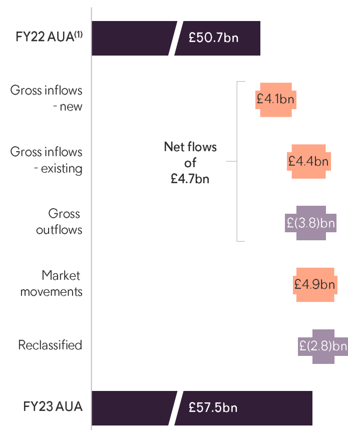
Europe and Other



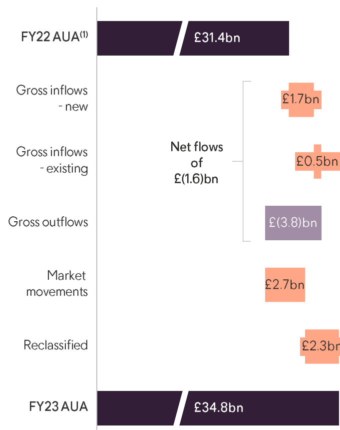
[1] FY22 opening AUA has been restated to reflect new reporting segments

Appendix 4: Movement in assets under administration by segment (Pensions and Savings)

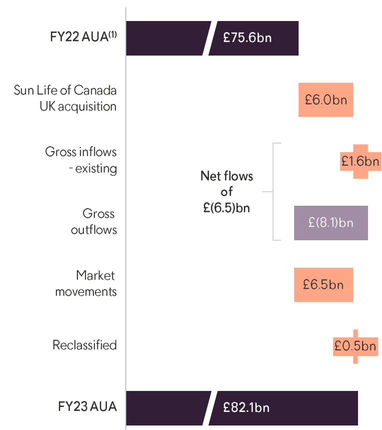
Pensions and Savings - Workplace



Pensions and Savings - Retail



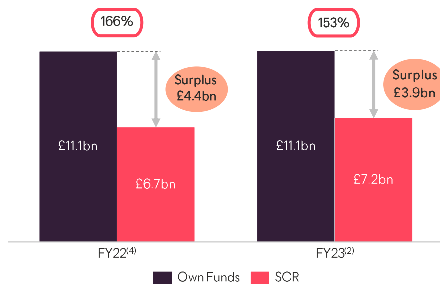
Pensions and Savings – Legacy



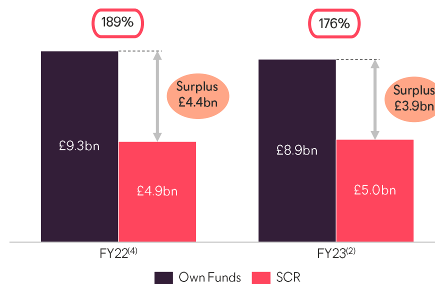
[1] FY22 opening AUA has been restated to reflect new reporting segments

Appendix 5: Estimated PGH Solvency II surplus and coverage ratios

PGH Solvency II Regulatory Coverage Ratio[2]



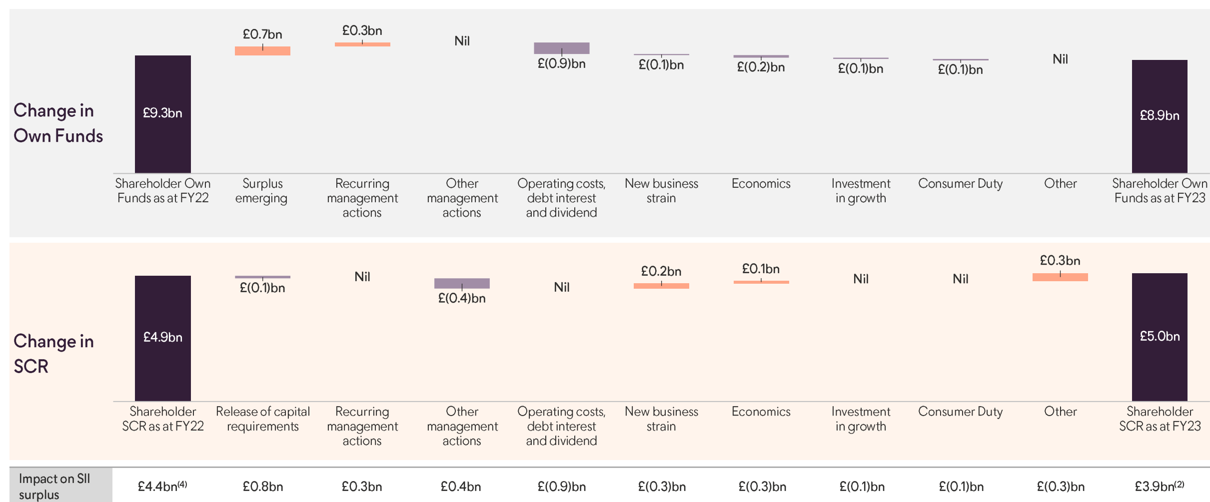
PGH Shareholder Capital Coverage Ratio[2,3]



	FY22	FY23
PGH Solvency II Own Funds	**£11.1bn**	**£11.1bn**
Less: Unsupported With-Profit funds	£(2.0)bn	£(2.4)bn
Adjustment for unsupported pension schemes and restrictions	£0.2bn	£0.2bn
PGH Shareholder Own Funds	**£9.3bn**	**£8.9bn**

See Appendix 16 for footnotes

Appendix 6: Change in Solvency II Own Funds and SCR

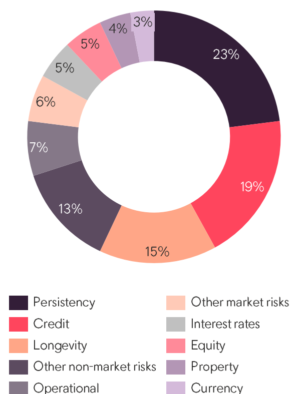


Impact on SII surplus	£4.4bn[4]	£0.8bn	£0.3bn	£0.4bn	£(0.9)bn	£(0.3)bn	£(0.3)bn	£(0.1)bn	£(0.1)bn	£(0.3)bn	£3.9bn[2]

See Appendix 16 for footnotes

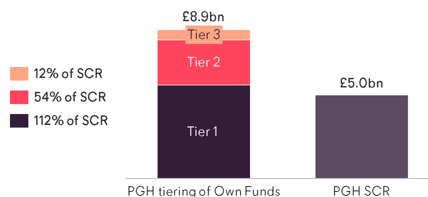
Appendix 7: Additional Solvency II disclosures

Estimated FY23 SCR by risk type[1]



Persistency
Credit
Longevity
Other non-market risks
Operational
Other market risks
Interest rates
Equity
Property
Currency

FY23 PGH Own Funds by capital tier[2]



Share of Solvency II Own Funds by capital tier

	£bn	%
Tier 1[3]	£5.6bn	63%
Tier 2	£2.7bn	30%
Tier 3	£0.6bn	7%
Total	**£8.9bn**	**100%**

[1] Split of SCR pre diversification benefits and on a Shareholder Capital basis
[2] 31 December 2023 Solvency II capital position is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2023 and recognition of the foreseeable Final 2023 shareholder dividend of £267m
[3] Tier 1 includes £1.1bn of Restricted Tier 1 capital at fair value

Appendix 8: PGH Solvency II Shareholder Capital Coverage Ratio sensitivities

	Base position	Unrewarded market risks[14]						Demographic risks[14]		Rewarded market risks[14]		
		Equities 20% fall in markets	Long-term rates 100bps rise in interest rates[15]	Long-term rates 100bps fall in interest rates[15]	Long-term inflation 50bps rise[16]	Currency 15% reduction[17]	Currency 10% increase[17]	Lapse 10% increase/ decrease in rates[18]	Longevity 6 months increase[19]	Property† 12% fall in values[20]	Credit 135bps spread widening[21]	Credit†† 20% portfolio full letter downgrade[22]
Impact on Solvency II surplus	£3.9bn	£0.1bn	£0.1bn	£(0.1)bn	£(0.1)bn	£0.2bn	£(0.1)bn	£(0.1)bn	£(0.4)bn	£(0.2)bn	£(0.2)bn	£(0.3)bn
Impact on SCCR (Target range: 140-180%)	176%	5%	6%	(5)%	(1)%	1%	0%	(1)%	(8)%	(5)%	(4)%	(9)%

† Property lending includes ERM and Commercial Real Estate
†† Downgrade sensitivity includes an estimate for realistic management actions
See Appendix 16 for footnotes

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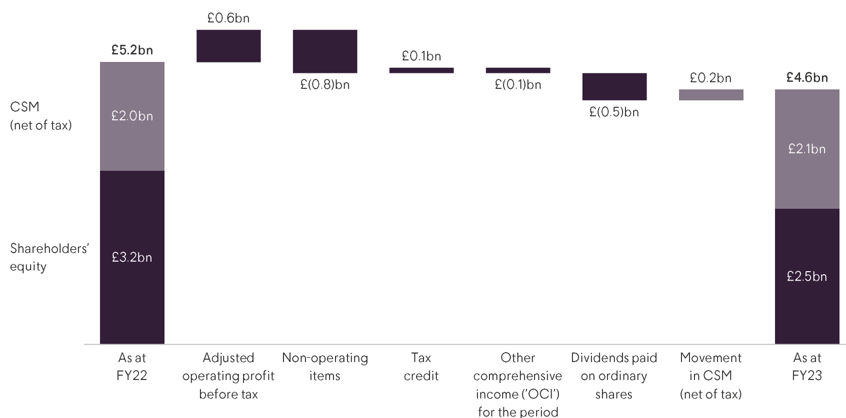
Appendix 9: Movement in adjusted shareholders' equity

Movement of IFRS adjusted shareholders' equity over 2023



Note: Numbers in the graph above do not sum due to rounding

Key messages

- Adjusted shareholders' equity reduced to £4.6 billion, with strong CSM growth more than offset by a decline in shareholders' equity due to elevated non-operating items
- The Group's CSM (gross of tax) grew 10% year-on-year, supported by strong BPA new business, positive assumption changes and the acquisition of Sun Life of Canada UK

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Appendix 10: 2023 operating profit drivers

	CSM release	Risk adjustment release	Operating profit on investment contracts	Expected investment margin	Non-financial experience variances	Other	Operating profit
Pensions and Savings	£25m	£8m	£262m	-	£(28)m	£(77)m	**£190m**
Retirement Solutions	£129m	£19m	-	£292m	£(9)m	£(53)m	**£378m**
With-Profits	£17m	£1m	£(7)m	£14m	£(6)m	£(9)m	**£10m**
Europe and Other	£28m	£5m	£(10)m	£80m	£48m	£(19)m	**£132m**
Corporate Centre	-	-	-	-	-	£(93)m	**£(93)m**
Total	£199m	£33m	£245m	£386m	£5m	£(251)m	**£617m**

Operating earnings per share[(1)]	32.7p

[1] Operating earnings per share is calculated using adjusted operating profit less financing costs, after tax divided by the weighted average number of ordinary shares in issue during the period

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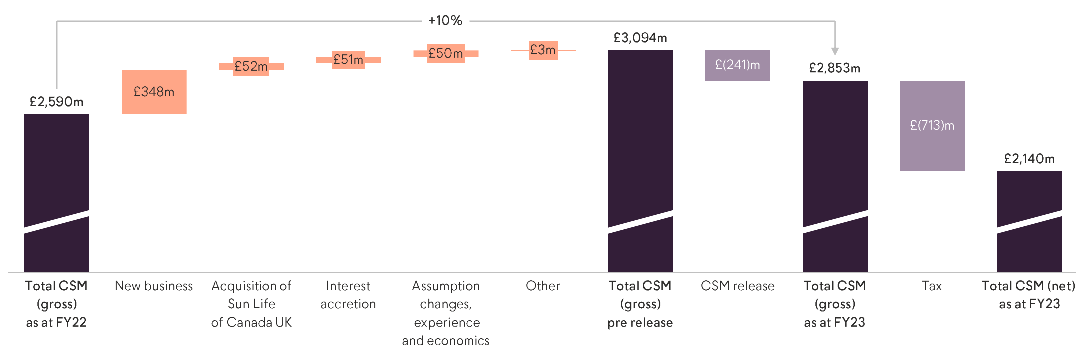
Appendix 11: Movement in Group Contractual Service Margin, including segmental split

Movement of the Group CSM from 1 January 2023 to 31 December 2023

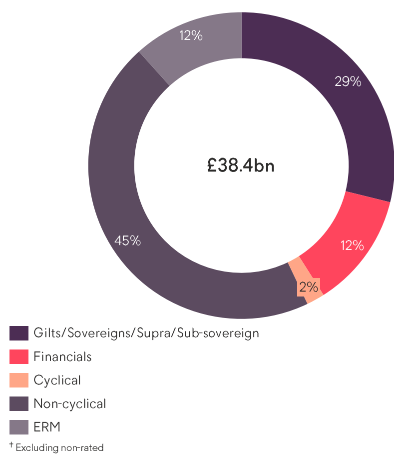


Split by segment:

	Total CSM (gross) as at FY22	New business	Acquisition of Sun Life of Canada UK	Interest accretion	Assumption changes, experience and economics	Other	Total CSM (gross) pre release	CSM release	Total CSM (gross) as at FY23	Tax	Total CSM (net) as at FY23
With-Profits	£423m	-	-	£7m	£96m	£(17)m	£509m	£(59)m	£450m	£(113)m	£337m
Retirement Solutions	£1,869m	£297m	£16m	£39m	£27m	£18m	£2,266m	£(129)m	£2,137m	£(534)m	£1,603m
Pensions and Savings	£94m	-	£34m	-	£100m	£(2)m	£226m	£(25)m	£201m	£(50)m	£151m
Europe and Other	£204m	£51m	£2m	£5m	£(173)m	£4m	£93m	£(28)m	£65m	£(16)m	£49m
Total Group	£2,590m	£348m	£52m	£51m	£50m	£3m	£3,094m	£(241)m	£2,853m	£(713)m	£2,140m

Appendix 12: Shareholder credit portfolio

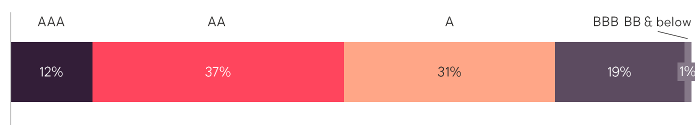
Prudently positioned shareholder credit portfolio



Gilts/Sovereigns/Supra/Sub-sovereign
Financials
Cyclical
Non-cyclical
ERM

† Excluding non-rated

Credit rating



- Shareholder credit assets are a small proportion of our c.£283bn balance sheet (c.14%)
- Our prudent portfolio is c.99% investment grade†
- No credit defaults

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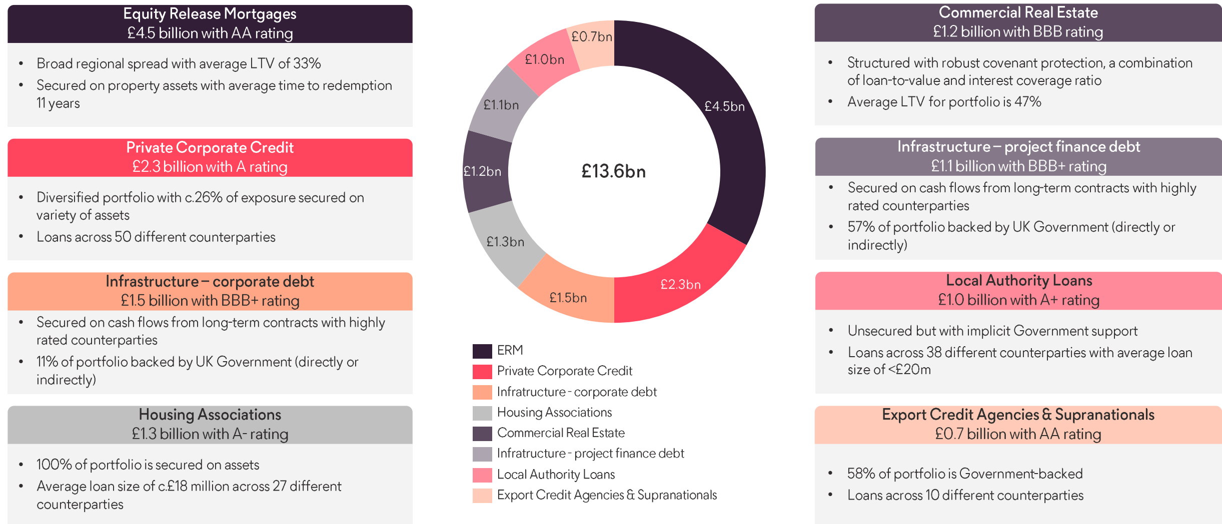
Appendix 13: Diversification of illiquid asset portfolio as at 31 December 2023
Equity Release Mortgages
£4.5 billion with AA rating
Broad regional spread with average LTV of 33%
Secured on property assets with average time to redemption 11 years
Private Corporate Credit
£2.3 billion with A rating
Diversified portfolio with c.26% of exposure secured on variety of assets
Loans across 50 different counterparties
Infrastructure – corporate debt
£1.5 billion with BBB+ rating
Secured on cash flows from long-term contracts with highly rated counterparties
11% of portfolio backed by UK Government (directly or indirectly)
Housing Associations
£1.3 billion with A- rating
100% of portfolio is secured on assets
Average loan size of c.£18 million across 27 different counterparties
£0.7bn
£1.0bn
£1.1bn
£1.2bn
£1.3bn
£1.5bn
£2.3bn
£4.5bn
£13.6bn
ERM
Private Corporate Credit
Infratructure - corporate debt
Housing Associations
Commercial Real Estate
Infratructure - project finance debt
Local Authority Loans
Export Credit Agencies & Supranationals
Commercial Real Estate
£1.2 billion with BBB rating
Structured with robust covenant protection, a combination of loan-to-value and interest coverage ratio
Average LTV for portfolio is 47%
Infrastructure – project finance debt
£1.1 billion with BBB+ rating
Secured on cash flows from long-term contracts with highly rated counterparties
57% of portfolio backed by UK Government (directly or indirectly)
Local Authority Loans
£1.0 billion with A+ rating
Unsecured but with implicit Government support
Loans across 38 different counterparties with average loan size of <£20m
Export Credit Agencies & Supranationals
£0.7 billion with AA rating
58% of portfolio is Government-backed
Loans across 10 different counterparties
Phoenix
61

Appendix 14: ESG ratings and collaborations

Strong ESG ratings

Ratings agency	FY22	FY23	Change
MSCI	A	AA	↑
Sustainalytics	19.8 / low risk	20.3 / medium risk	↓
CDP	A-	A-	↔
S&P Global	84th percentile	90th percentile	↑
ISS ESG corporate rating	C-	C prime	↑

ESG ratings may vary among ESG rating agencies as the methodologies used to determine ESG ratings may differ. The Group's ESG ratings are not indicative of its current or future operating or financial performance, and are only current as of the dates on which they were initially issued. Investors must determine for themselves the relevance of any such ESG ratings information contained in this presentation.

Collaborations and Commitments

Appendix 15: 2024 sustainability commitments

ESG Theme: Planet

We want to help shape a better future. This means delivering good outcomes for our customers, playing a key role in delivering a net zero economy by 2050 and understanding our impact and dependency on nature.

Key 2024 commitments:

- Begin implementing customised decarbonising benchmarks for our listed equities and create a roadmap for rolling out decarbonising strategies across the remainder of our listed equity and credit portfolios, in line with delivering good customer outcomes.
- Develop a roadmap for our ambition to invest up to £40 billion in sustainable, transition, and productive[1] assets subject to overcoming barriers, and in line with commercial objectives and delivering good customer outcomes.
- Continue 50-70% target range for shareholder illiquid asset origination to be sustainable or transition assets.
- Continue our programme of thought leadership, collaboratively driving policy change to unlock investment in climate solutions through roundtables and political manifesto recommendations.
- Deliver a programme to engage colleagues to reduce our emissions from business travel.

ESG Theme: People

We want to help people live better longer lives. This means tackling the pensions savings gap and supporting people to have better financial futures through promoting financial wellness and the role of good work and skills.

Key 2024 commitments:

- Increase awareness of the pensions savings gap and inspire one million people to take action.
- Through Phoenix Insights, build and launch a Longer Lives Tracker to provide evidence and insight to policymakers.
- Launch a social impact initiative and partnership with a charity.
- Continue to scope the development of a long-term social target.
- Scale tailored financial inclusion solutions to meet the needs of different customer segments.
- Inspire people to manage and change careers through extending the 'Careers can change' campaign.

[1] Productive Finance Working Group, convened in November 2020 by the Bank of England, HM Treasury and the FCA. Current guidance.

Appendix 16: Footnotes

1. The Board will continue to prioritise the sustainability of our dividend over the very long term. Future dividends and annual increases will continue to be subject to the discretion of the Board, following assessment of longer-term affordability.
2. 31 December 2023 Solvency II capital position is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2023 and recognition of the foreseeable Final 2023 shareholder dividend of £267m.
3. The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported With-Profit funds and unsupported pension schemes.
4. 31 December 2022 Solvency II capital position reflects a dynamic recalculation of transitionals for the Group's Life companies and recognition of the foreseeable Final 2022 shareholder dividend. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.1bn and 2% respectively.
5. 2022 IFRS adjusted operating profit restated to reflect adoption of IFRS 17.
6. Incorporates changes to the Group's methodology for determining adjusted operating profit since Half Year 2023.
7. New business strain reflects capital invested into annuities.
8. Sources: LCP report (A seismic shift in buy-ins/outs: how is the market adapting, October 2023), and Broadridge report (Navigator UK Defined Contribution and Retirement Income 2021).
9. Sources: LCP report (A seismic shift in buy-ins/outs: how is the market adapting, October 2023), NMG UK Stock Flow Model, and Broadridge report (Navigator UK Defined Contribution and Retirement Income 2021).
10. Assuming economic conditions in line with 31 December 2023.
11. Debt outstanding on a face value basis.
12. Solvency II leverage ratio calculation = debt (all debt including RT1) / SII regulatory Own Funds. Ratio allows for currency hedges over foreign currency denominated debt.

Appendix 16: Footnotes

13. Fitch leverage ratio is estimated by management based on Fitch's published methodology. Ratio allows for currency hedges over foreign currency denominated debt.
14. Illustrative impacts assume changing one assumption on 1 January 2024, while keeping others unchanged, and that there is no market recovery. They should not be used to predict the impact of future events as this will not fully capture the impact of economic or business changes. Given recent volatile markets, we caution against extrapolating results as exposures are not all linear.
15. Assumes the impact of a dynamic recalculation of transitionals (subject to PRA approval) and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interaction of rates with other correlated risks including longevity.
16. Rise in Inflation: 15yr inflation +50bps.
17. A 15% weakening/ 10% strengthening of GBP exchange rates against other currencies.
18. Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
19. Only applied to the annuity portfolio.
20. Property stress represents an overall average fall in property values of 12%.
21. Credit stress varies by rating and term and is equivalent to an average 135bps spread widening. It assumes the impact of a dynamic recalculation of transitionals (subject to PRA approval) and makes no allowance for the cost of defaults/downgrades.
22. Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.

Legal disclaimer

This presentation in relation to Phoenix Group Holdings plc and its subsidiaries (the 'Group') contains, and the Group 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, ambitions, outlook, guidance and expectations relating to future financial condition, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'may', 'should', '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, political, social, environmental and business conditions; asset prices; market-related risks such as fluctuations in investment yields, interest rates and exchange rates, the potential for a sustained low-interest rate or high interest rate environment, and the performance of financial or credit markets generally; the policies and actions of governmental and/or regulatory authorities including, for example, climate change and the effect of the UK's version of the 'Solvency II' regulations on the Group's capital maintenance requirements; developments in the UK's relationship with the European Union; the direct and indirect consequences for European and global macroeconomic conditions of the conflicts in Ukraine and the Middle East, and related or other geopolitical conflicts; political uncertainty and instability; the impact of changing inflation rates (including high inflation) and/or deflation; information technology or data security breaches (including the Group being subject to cyber-attacks); the development of standards and interpretations including evolving practices in ESG and climate reporting with regard to the interpretation and application of accounting; the limitation of climate scenario analysis and the models that analyse them; lack of transparency and comparability of climate-related forward-looking methodologies; climate change and a transition to a low-carbon economy (including the risk that the Group may not achieve its targets); the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; 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 any acquisitions, disposals or other strategic transactions; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and the impact of changes in capital, and implementing changes in IFRS 17 or any other regulatory, solvency and/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, ambitions, outlook, guidance and expectations set out in the forward-looking statements and other financial and/or statistical data within this presentation. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this presentation or any other forward-looking statements or data it may make or publish. Nothing in this presentation constitutes, nor should it be construed as, a profit forecast or estimate.