Phoenix Group is executing on its strategy, delivering strong organic growth and resilient cash generation

We are delivering sustainable organic growth

- 106% year-on-year increase in H1 incremental new business long-term cash generation to £885m (H1 2022: £430m).
- Comprises £665m from Retirement Solutions (H1 2022: £282m) and £220m from our capital-light fee-based businesses (H1 2022: £148m).
- 72% year-on-year increase in new business net fund flows to £3.1bn (H1 2022: £1.8bn).
- Phoenix is now on track to deliver positive Group net fund flows from 2024, for the first time in its history.

We continue to deliver high levels of dependable cash generation

- £898m[1] of cash generation[2] (H1 2022: £950m); now confident of delivering at the top-end of our £1.3bn-to-£1.4bn target range for the year.
- £12.5bn of Group in-force long-term free cash increased by c.£0.4bn (FY22: £12.1bn) with strong growth both organically and through M&A, more than offsetting our annual uses of cash.

Our resilient balance sheet supports investment in growth

- 180%[3,4] Solvency II Shareholder Capital Coverage Ratio ('SCCR') (FY22: 189%[4]) remains at the top-end of our target range of 140-180%, providing capacity to invest in growth opportunities, as we have done in the first half.
- £3.9bn[3] Solvency II Surplus at 30 June 2023 remains resilient (FY22: £4.4bn).

We have the financial flexibility to support our strategy, including the capacity to raise further debt

- We have proactively de-levered our balance sheet through the repayment of £772m of debt since the end of 2020.
- Alongside updating our Fitch leverage ratio calculation for IFRS 17, we have also updated the calculation to include the policyholder estate for market consistency, and this was agreed with Fitch as part of our annual review.
- Our restated FY22 Fitch leverage ratio is 25%[5], which is at the bottom of our 25-30% target range, and leverage is not a constraint to our M&A ambitions.

A sustainable dividend that grows over time

- The Board has declared a 2023 Interim dividend of 26.0 pence per share, equal to the 2022 Final dividend, which is a 5% year-on-year increase (H1 2022: 24.8 pence).
- The Board will assess the level of the 2023 Final dividend alongside the Full Year results next year.

Commenting on the results, Phoenix Group CEO, Andy Briggs said:

"As the UK's largest long-term savings and retirement business, Phoenix is executing on its single strategic focus – helping customers journey to and through retirement.

We are delivering strong organic growth, with new business long-term cash more than doubling to £885 million in the first half. This was supported by a 72% year-on-year increase in our new business net fund flows to £3.1bn in H1, despite a challenging market environment, and we are now confident of delivering positive Group net fund flows from 2024. We also grew inorganically, with the completion of the Sun Life of Canada UK acquisition, with c.20% of the purchase price received in cash generation in just 3 months, and we are confident of executing further M&A over time.

We continue to deliver our dependable cash generation, with £898 million in H1, and are on track to deliver at the top-end of our £1.3-£1.4 billion target range for 2023.

Our impressive first half performance has enabled the Board to declare an Interim dividend that is a 5% year-on-year increase and executing our strategy will support us in delivering a dividend that is sustainable and grows over time."

Clear progress made against our strategic priorities and our key ESG themes

Growing organically

- The significant progress made with our organic growth strategy means we now expect to deliver positive Group net fund flows from 2024, which means our new business inflows will more than offset our Heritage run-off outflows.
- Our strategy is designed to maintain a balanced business mix over time; c.67% of our assets are capital-light fee-based products which provides scale that we will leverage as we grow our Pensions & Savings business, while annuities are currently c.13% of our assets as we seek to limit credit risk to a well-diversified proportion of our balance sheet.
- We have enhanced our Workplace proposition which has improved existing client retention, thereby reducing outflows and driving new business inflows through new joiners to existing schemes and increased member contributions including salary inflation.
- This has supported a 64% increase in Workplace incremental new business long-term cash generation to £184m (H1 2022: £112m), with 95% of our new business coming from our existing clients.
- In addition, we have recently won c.£3bn of Workplace new scheme assets that will transfer in 2024 and 2025, and we are currently quoting on a strong pipeline of c.£3.5bn of new Workplace schemes.
- We continue to win new clients in a competitive BPA market with our strong proposition and the Standard Life brand, with £3.2bn of premiums written in the first half (H1 2022: £1.6bn), at an attractive cash multiple of 3.4x. In H1 we invested £195m of capital and will continue to be disciplined with a target annual capital investment of c.£300m.
- In September, we launched an open market Standard Life individual annuity, available to new and existing customers.
- We proudly manage £269bn of assets under administration as at 30 June 2023 (FY22: £259bn).

Growing through M&A

- We completed the acquisition of Sun Life of Canada UK for £250m in April and have seen good initial integration progress with £46m of cash generation remitted within the first three months, equating to c.20% of the purchase price.
- We have delivered a 3-year payback on ReAssure with £3.7bn of cash generation received since acquisition (115% of the £3.2bn consideration paid), with a further £3.3bn of cash generation still to emerge over time.
- Confident of further M&A opportunities emerging over time and we have the financial flexibility to fund transactions.

Optimising our in-force business

- Continued to deliver high levels of management actions with £412m realised in the first half (H1 2022: £421m), reflecting our ongoing focus of optimising and enhancing our business.
- The enhanced capabilities we have built in-house, across asset management and capital optimisation, will enable us to leverage evolving market dynamics, and deliver a repeatable pipeline of management actions over the very long term.
- Further diversified our asset portfolio into North America, with c.£1.1bn of assets deployed in the region in H1.

Enhancing our operating model and culture

- Progressed our ongoing migrations with c.80% of our digital customer journeys transitioned onto TCS BaNCS.
- Executing one of the largest ever insurance Part VII transfers[6], unifying 4 legal entities and c.7 million policyholders into one entity.
- Further developed our talent pipeline and launched Phoenix Flex, our new flexible working policy.

Our strategic priorities are informed by, and in support of, our key ESG themes of: Planet and People

- Planet:
  - Published our Net Zero Transition Plan in May and are on track to meet our 2025 net zero targets.
  - Certified as a signatory to the UK Stewardship Code.
  - c.95% of our H1 illiquid asset origination (excluding ERM) of c.£0.5bn was into sustainable assets.

- People:
  - Launched access for Standard Life customers to an innovative integrated financial wellness hub, Money Mindset, with an intention to reach 1.5m customers.
  - Reached 4 million people with an awareness campaign on longer lives and under saving for retirement.
  - Our think tank, Phoenix Insights, advocated for reforms to the state pension and used new research to encourage businesses and Government to address economic inactivity amongst older workers.

Key financial targets and guidance

- **Cash:** now expect to deliver at the top-end of our 2023 cash generation target range of £1.3bn-to-£1.4bn; on track to deliver our 3-year 2023-25 cash generation target of £4.1bn.
- **Resilience:** continue to operate within our target ranges for our SCCR (140-180%) and Fitch leverage ratio (25-30%).
- **Organic growth:** we will deliver further organic growth in 2023 as we progress towards:
  - Positive Group net fund flows from 2024
  - c.£1.5bn per annum of incremental new business long-term cash generation by 2025
  - c.£5bn of annual net fund flows in Workplace and c.£2bn in Retail, by 2025
- **M&A growth:** continue to assess further M&A opportunities and confident of our ability to execute transactions.

IFRS 17 transition update

No change to strategy, cash generation, solvency or dividend

- IFRS 17 is a global accounting standard that was implemented on 1 January 2023 and is an accounting change which does not alter the underlying economics of our business. As a result, IFRS 17 does not change our strategy or dividend, and we will remain focused on delivering cash and capital.
- As a result of our successful track record of delivering value-accretive M&A and subsequent integration activity, c.95% of our business was recognised at fair value on transition, which results in the establishment of a lower Contractual Service Margin ('CSM') and also increases the volatility in our shareholders' equity.
- IFRS 17 adjusted shareholders' equity (inclusive of the CSM net of tax) was £5.2bn at 31 December 2022, 24% higher than IFRS 4 shareholders' equity of £4.2bn.
- The Group's CSM (gross of tax) at 31 December 2022 was £2.6bn and this grew at 7% year-on-year in 2022. It represents a significant store of future profits and is expected to release into the P&L at c.5-7% per annum.
- IFRS 17 shareholders' equity was £3.2bn at 31 December 2022, which is 24% lower than IFRS 4 of £4.2bn, due primarily to £(0.4)bn lower operating profit as a result of items transferred to the CSM, and a £(0.7)bn adverse economic impact from increased accounting volatility under IFRS 17 related to our hedging approach and the prudence under IFRS 4.
- IFRS 17 adjusted operating profit before tax for FY22 was £0.6bn, which is c.50% lower than under IFRS 4 of £1.2bn. This principally reflects the transfer of £(0.4)bn of items to the CSM including annuity new business profits and model, methodology and assumption changes, as well as £(0.2)bn of items not recognised in adjusted operating profit under IFRS 17, and a £(0.2)bn lower contribution from With-Profits and Unit-Linked business. All of which was partly offset by a £0.2bn release of the CSM.
- Phoenix Group's half year 2023 IFRS financial statements will be published on Thursday 28 September.
- The Group has published a FY22 IFRS 17 transition update presentation, available on our website at: https://www.thephoenixgroup.com/investor-relations/results-reports-and-presentations

Enquiries

Investors/analysts:

Claire Hawkins, Director of Corporate Affairs & Investor Relations, Phoenix Group
+44 (0)20 4559 3161

Andrew Downey, Investor Relations Director, Phoenix Group
+44 (0)20 4559 3145

Media:

Douglas Campbell, Teneo
+44 (0)7753 136 628

Shellie Wells, Corporate Communications Director, Phoenix Group
+44 (0)20 4559 3031

Presentation and financial supplement details

There will be a live virtual presentation for analysts and investors today starting at 09:00 (BST). You can register for the live webcast at: Phoenix Group 2023 half year results

A link to the live webcast of the presentation, with the facility to raise questions, as well as a copy of the presentation and a detailed financial supplement will be available at:

https://www.thephoenixgroup.com/investor-relations/results-reports-and-presentations

A replay of the presentation and transcript will also be available on our website following the event.

Dividend details

The declared 2023 Interim dividend of 26.0 pence per share is expected to be paid on 23 October 2023.

The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 28 September 2023. The record date for eligibility for payment will be 29 September 2023.

Footnotes

1. HY23 pro forma reflecting £450m of cash remittances in July 2023.
2. Cash generation is a measure of cash and cash equivalents, remitted by Phoenix Group's operating subsidiaries to the holding companies and is available to cover dividends, debt interest, debt repayments and other items.
3. 30 June 2023 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies and recognition of the foreseeable 2023 Interim shareholder dividend of £260m. Had the dynamic recalculation not been assumed, the Solvency II Surplus and the Shareholder Capital Coverage Ratio would decrease by £4m and increase 0.2% respectively.
4. The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported With-Profit funds and unsupported pension schemes.
5. FY22 restated Fitch leverage ratio is estimated by management on an IFRS 17 basis and reflects the adoption of a market-consistent ratio calculation methodology. Ratio allows for currency hedges over foreign currency denominated debt.
6. Subject to approval by the Scottish and English Courts.

Legal Disclaimers

All information in this announcement is unaudited.

This announcement 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, initiatives related to the financial crisis, the COVID-19 pandemic, climate change and the effect of the UK's version of the "Solvency II" regulations on the Group's capital maintenance requirements; the impact of changing inflation rates (including high inflation) and/or deflation; the medium and long-term political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union; the direct and indirect consequences of the European and global macroeconomic conditions of the Russia-Ukraine War and related or other geopolitical conflicts; information technology or data security breaches (including the Group being subject to cyberattacks); 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); 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 proposed or future acquisitions, disposals or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, 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 announcement. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this announcement or any other forward-looking statements or data it may make or publish. Nothing in this announcement constitutes, nor should it be construed as, a profit forecast or estimate.