Phoenix

IFRS 17 results

Phoenix Group Holdings plc

28 September 2023

Phoenix

IFRS 17 transition update

IFRS 17 has no impact on our strategy or dividend

No change to our clear strategy

Our strategy of growing our in-force business over time as we support customers on their journey to and through retirement is unchanged

No impact on our sustainable dividend

The long-term sustainability of our dividend paying capacity remains unchanged, with 2022 IFRS distributable reserves† of c.£5 billion unaffected by IFRS 17

We remain focused on delivering cash and capital

We will continue to focus on the delivery of cash generation and Solvency II capital resilience, with no change to our KPIs or targets

† Our life companies will move to UK GAAP and are therefore unaffected by changes introduced by IFRS 17

Key takeaways of Phoenix's transition to IFRS 17

1. As a result of our successful track record of value-accretive M&A, c.95% of our business was recognised at fair value on transition, which results in the establishment of a lower CSM and increases the volatility in our shareholders' equity

2. IFRS 17 FY22 adjusted shareholders' equity (inclusive of the CSM) of £5.2 billion is 24% higher than shareholders' equity under IFRS 4

3. As at FY22 we have a CSM (gross of tax) of c.£2.6 billion, which is a significant store of future profits, and which we expect to run off at c.5-7%. The CSM grew 7% year-on-year in 2022 (FY21: £2.4 billion)

4. IFRS 17 FY22 shareholders' equity of £3.2 billion is 24% lower than IFRS 4 due to the transfer of items to the CSM, and IFRS 4 items de-recognised under IFRS 17

5. IFRS 17 FY22 adjusted operating profit of £0.6 billion is c.50% lower than £1.2 billion under IFRS 4, principally due to items transferred to the CSM and items not recognised under IFRS 17

Around half of our policyholder liabilities are affected by the application of IFRS 17, with c.95% of IFRS 17 business fair valued on transition

Around half of our business is not impacted by IFRS 17

c. 45%

Includes:
- With-Profits
- Annuities
- Unit-Linked 'hybrids'

→

c.£119 billion†

IFRS 17 Best Estimate Liabilities ('BEL')

c. 55%

Includes:
- Pensions and Savings
- Other Unit-Linked business

→

c.£145 billion†

IFRS 9 Investment contract liabilities

† As at FY 2021 net of reinsurance
Chart not to scale

IFRS 17 adoption

- All of our With-Profits and annuity business is captured under IFRS 17
- Unit-Linked 'hybrid' contracts (Unit-Linked contracts with significant insurance or unitised With-Profits features) are captured under IFRS 17

IFRS 17 transition approach

- c.£6 billion of BEL captured under full retrospective approach ('FRA') – default approach, measured on the following books:
  - External BPA and new business by SunLife written since 2018
  - The Group's remaining new business from 1 January 2021
- c.£113 billion of BEL captured under fair value approach ('FVA') – applied to remainder of the Group's business, where FRA is deemed impracticable due to data usability or availability
- This includes c.£12 billion of annuity and conventional non-profit BEL acquired from ReAssure fair valued on acquisition in 2020
- This equates **to c.95% of IFRS 17 business** on FVA
- Typically, using FVA would be expected to result in the recognition of a lower CSM on transition and also increase the volatility in our shareholders' equity

Impact of IFRS 17 on Annuities business

Annuities business fully captured under IFRS 17

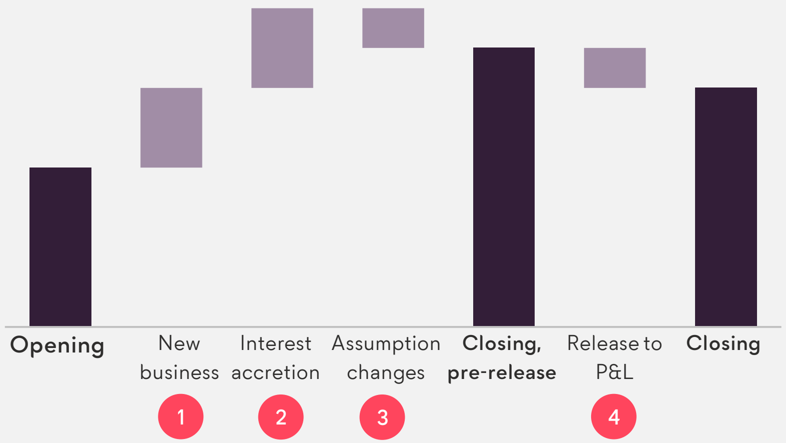
Transition

- Fully retrospective transition approach used for BPAs
- Other annuities fair valued on transition (or on acquisition for ReAssure)
- IFRS 17 slows down the recognition of profits on annuities as profit is now deferred to the CSM on contract inception and then released to adjusted operating profit over the life of product
- Creation of Risk Adjustment, released over time to adjusted operating profit

Future profit signature

- Profit will be driven by release of the CSM and Risk Adjustment
- Any non-economic experience and assumption changes are now recognised in the CSM and released over time to adjusted operating profit
- Adjusted operating profit grows over time as the CSM grows with new business
- Changes in economic assumptions recognised in the income statement, outside of adjusted operating profit

Illustrative change in the CSM



Drivers of change:

1. The CSM will increase as we write new, profitable business
2. Interest accretion on the CSM at the rate locked in at inception of the contract / transition
3. Non-economic experience and assumption changes are deferred to the CSM
4. The CSM released to P&L as contracts are fulfilled

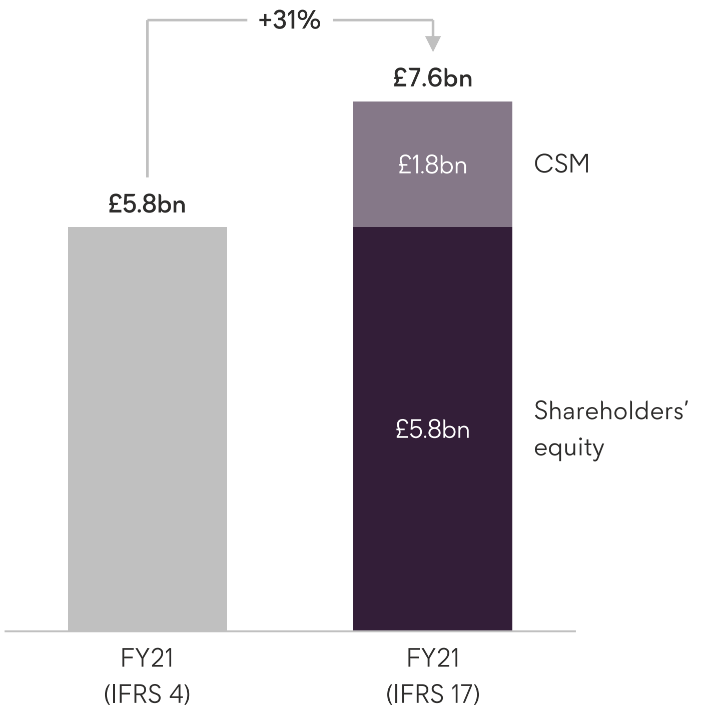
Impact of IFRS 17 on With-Profits and Unit-Linked hybrid business

With-Profits business and Unit-Linked hybrids are fully captured under IFRS 17

Transition	• Historic acquisitions and integrations means fair value transition approach used due to data availability • Profits now spread over life of product – results in accelerated recognition of With-Profit shareholder transfers • A small CSM created for profits not capitalised • All assumption changes and management actions now sit in the CSM • Creation of Risk Adjustment, released over time to adjusted operating profit • c.£5 billion of Unit-Linked liabilities ('hybrid' contracts) reallocated from investment contracts into the scope of IFRS 17 • Unit-Linked business without significant insurance or unitised With-Profit features ('hybrids') are captured under IFRS 9
Future profit signature	• Profit will be driven by a small CSM release over time for future profits not accelerated by FVA, and unwind of Risk Adjustment • All market movements, experience and assumption changes go to the CSM / loss component • Adjusted operating profit will therefore be lower • IFRS 9 investment contract business is unchanged, after reallocating Unit-Linked hybrid contracts

There was a broadly neutral impact on shareholders' equity on transition in 2021

FY 2021
Adjusted shareholders' equity (inclusive of CSM)



Transition

- Acquisitive nature of our business model means c.95% of IFRS 17 business is fair valued on transition
- Decrease in equity from Annuities, as the previous Day-1 profit recognition is now spread over the life of the contract
- Increase in equity from our With-Profits business, given accelerated profit recognition and fair value approach ('FVA') to transition, with a resultant thin CSM created
- De-recognition of intangibles on IFRS 17 business decreased equity
- Net impact = broadly neutral on transition date

Future impact on equity

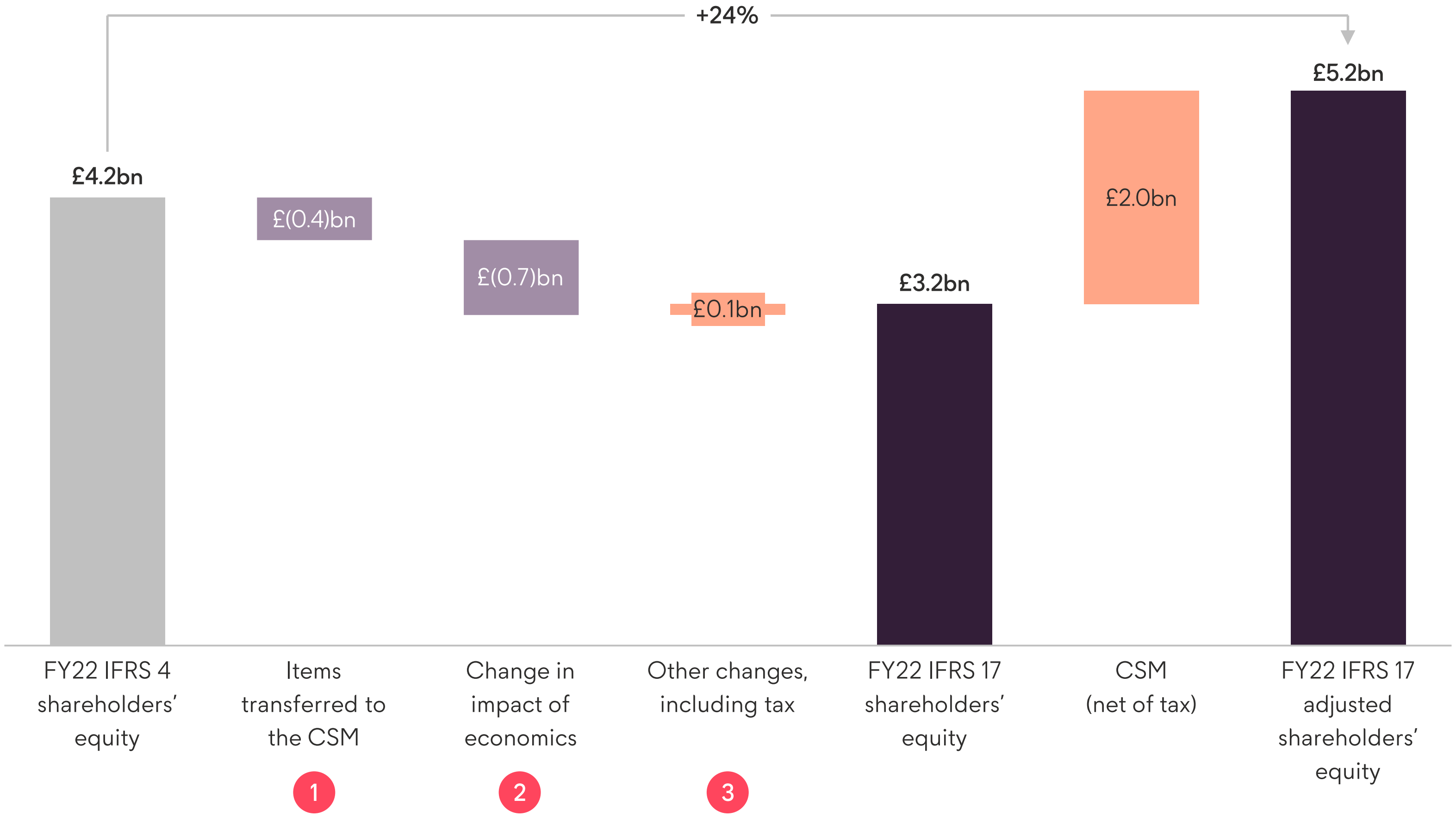
- Non-economic assumption changes and management actions are now initially recognised in the CSM and released to adjusted operating profit over the life of the contract
- With-Profits has a small CSM due to FVA method; this means if adverse economics or assumption changes create loss components (i.e. CSM reduces to nil), volatility will be in P&L rather than CSM
- Lower profit on With-Profits and Unit-Linked hybrid business as the CSM unwind is lower than share of bonuses in adjusted operating profit under IFRS 4
- In-force Annuity profits increase due to amortisation of the CSM

Future impact on CSM

- Will grow as we write new profitable business
- Changes in non-economic assumptions and management actions go to the CSM
- Expected release into P&L at c.5-7% per annum
- Market movements on With-Profit and Unit-Linked hybrid business are recognised in the CSM

2022 adjusted shareholders' equity (including the CSM) is higher than IFRS 4 shareholders' equity

Transition of adjusted shareholders' equity from IFRS 4 to IFRS 17

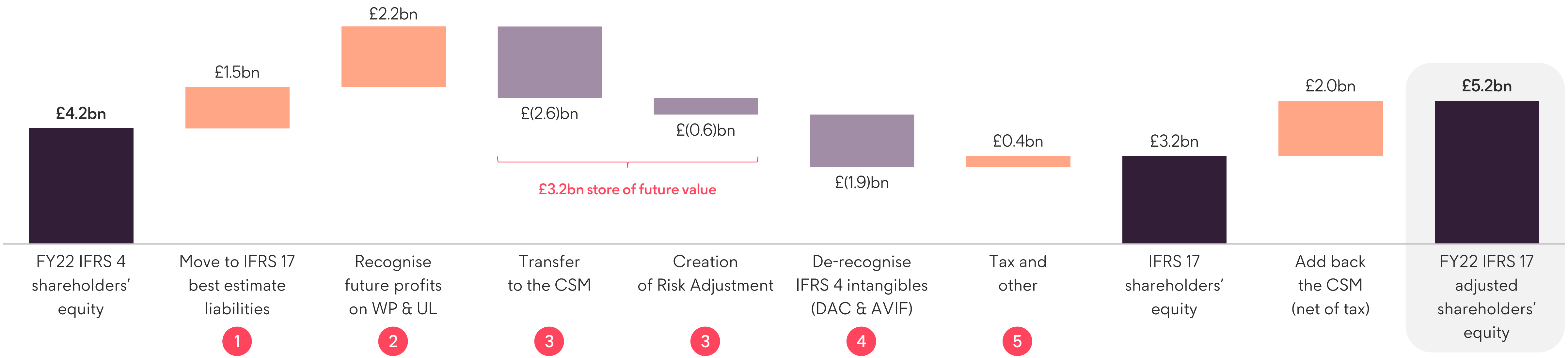


Key messages

- Lower IFRS 17 shareholders' equity compared to IFRS 4 due to:
  1. Reduction in adjusted operating profit due to Annuity new business profits, demographic assumption changes and management actions transferred to the CSM
  2. Increased accounting volatility under IFRS 17 related to our hedging strategy, with increased rates during FY22 driving a significant impact
  3. Impact of other valuation differences, including taxation impacts on the adjustments above

Key changes to adjusted shareholders' equity on transition to IFRS 17 at FY 2022

Transition of adjusted shareholders' equity from IFRS 4 to IFRS 17

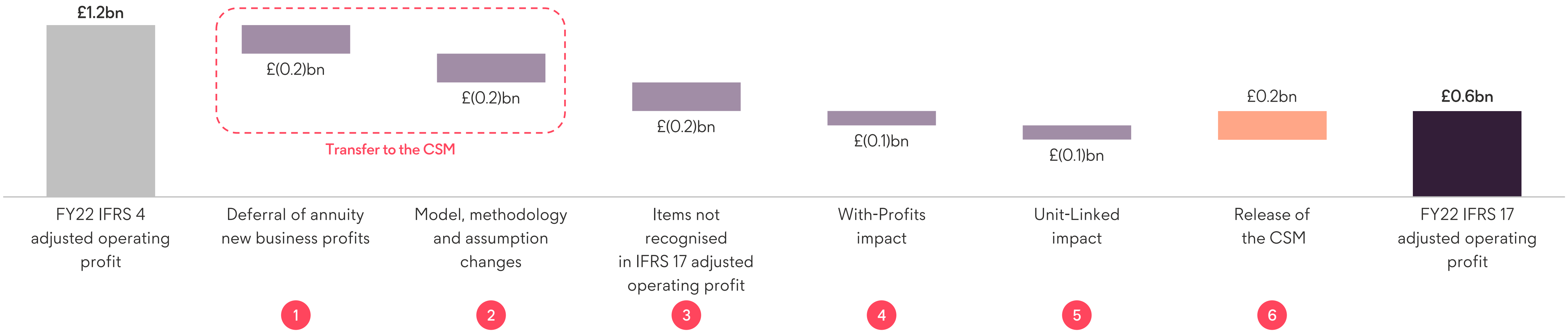


Key messages

1. Margins under IFRS 4 are released
2. Future profits on With-Profits and Unit-Linked hybrid business are now recognised, with a small element transferred to the CSM
3. The CSM and Risk Adjustment are new liabilities under IFRS 17 and represent a store of future value
4. Previously recognised insurance deferred acquisition costs ('DAC') and acquired value of in-force ('AVIF') intangibles (as a result of M&A) are de-recognised
5. Deferred tax is recognised on transition adjustments - spread over 10 years

2022 restated adjusted operating profit is c.£0.6 billion lower under IFRS 17

Transition of adjusted operating profit before tax from IFRS 4 to IFRS 17



Reduction in adjusted operating profit driven by:

1. Annuity new business profits are now initially recognised in the CSM
2. Deferral of model and methodology changes, non-economic assumption changes and management actions to the CSM
3. De-recognition of modelling updates that are no longer recognised under IFRS 17
4. Reduction in With-Profits driven by the thin CSM at transition and the negative market movements in FY 2022, resulting in the unwind of the CSM and Risk Adjustment under IFRS 17 being significantly less than the shareholders' share of bonuses under IFRS 4
5. Decrease in Unit-Linked hybrid business, as the thin CSM created at transition, which was negatively impacted by markets in FY 2022 resulting in reduced levels of CSM unwind
6. Positive impact of the CSM release, primarily relating to in-force Annuity business

Increased accounting volatility under IFRS 17

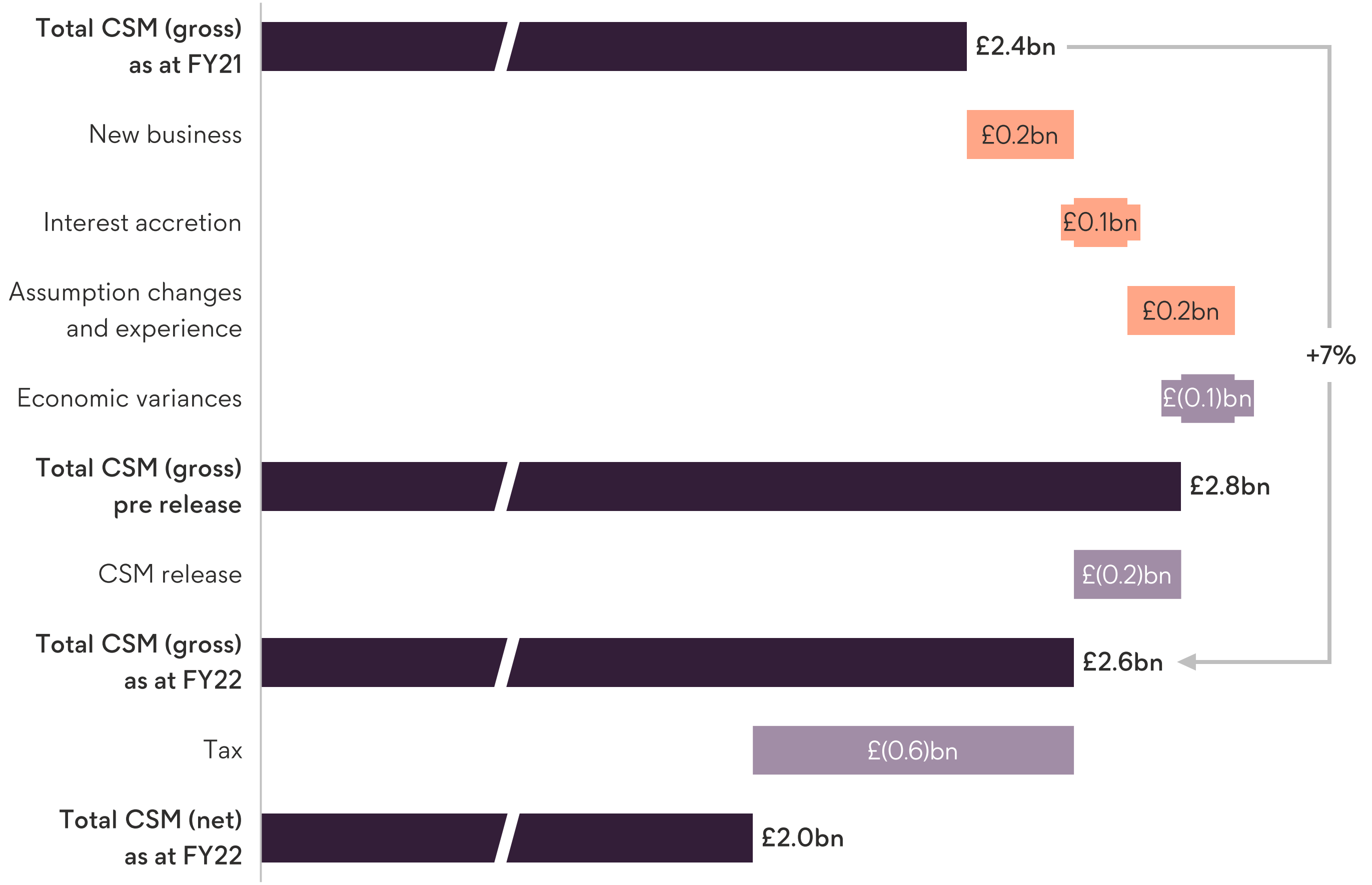
2022	IFRS 4	IFRS 17	Change
Adjusted operating profit before tax	**£1,245m**	**£570m**	**£(675)m**
Investment return variances and economic assumption changes	£(2,673)m	£(3,333)m	£(660)m
Amortisation and impairment of intangibles	£(522)m	£(356)m	£166m
Other non-operating items	£(179)m	£(261)m	£(82)m
Finance costs	£(199)m	£(199)m	-
Profit before tax attributable to non-controlling interest	£67m	£67m	-
Loss before tax attributable to owners	**£(2,261)m**	**£(3,512)m**	**£(1,251)m**
Tax credit attributable to owners	£499m	£845m	£346m
Loss after tax attributable to owners	**£(1,762)m**	**£(2,667)m**	**£(905)m**

Key messages on restatement

- Increased investment return variances and economic assumption changes due to increased accounting volatility under IFRS 17 related to our hedging approach and our With-Profit and Unit-Linked business
- The Group remains 'over-hedged' to interest rate risk on an IFRS basis. This is amplified under IFRS 17 given the reduction in IFRS 4 prudent margins and the recognition of the CSM at 'locked-in' interest rates
- Reduced intangibles amortisation charges due to de-recognition of insurance contract AVIF, as now included as part of insurance liabilities
- Other non-operating items adversely impacted by removal of IFRS 4 prudence margin benefits, partly offset by the impact of moving insurance attributable project expenses to the CSM

7% growth in the Group CSM during 2022, driven by new business

Movement of the CSM from 1 January 2022 to 31 December 2022

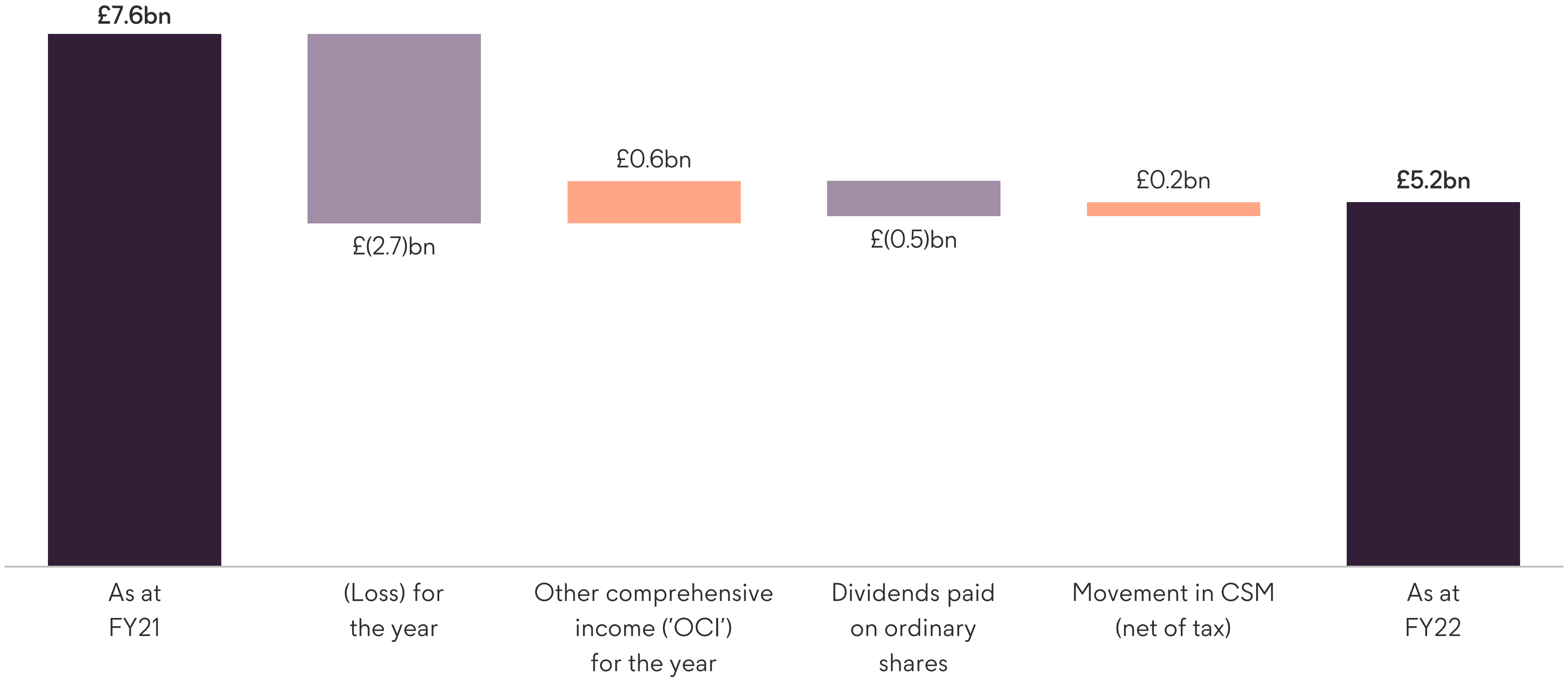


Key messages

- Total CSM (gross of tax) of £2.6bn grew 7% year on year (FY21: £2.4bn)
- New business profit largely driven by BPA
- Positive impact from demographic assumption changes
- Adverse economic variances relate to With-Profit and Unit-Linked hybrid business
- £0.2 billion of CSM released to the P&L
- Expect the release of the CSM (gross of tax) to be c.5-7%, primarily driven by Annuities

Decrease in adjusted shareholders' equity in 2022 largely driven by economics due to increased accounting volatility under IFRS 17

Movement of IFRS 17 adjusted shareholders' equity over 2022



Key messages

- Loss for the year primarily driven by adverse investment return variances
- This was partly offset by a c.£0.6 billion gain in OCI related to the decrease in our Defined Benefit pension obligations from our corporate pension schemes that were subject to a buy-in
- Movement in the CSM largely driven by BPA new business written in the year

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Half year 2023 IFRS 17 results

Our adjusted operating profit has increased by 5% year-on-year primarily due to a higher CSM release

	HY22†	HY23
Heritage	£114m	£117m
Open	£171m	£182m
Corporate Centre	£(31)m	£(33)m
Adjusted operating profit before tax	**£254m**	**£266m**
Investment return variances and economic assumption changes	£(1,540)m	£(253)m
Amortisation and impairment of intangibles	£(175)m	£(161)m
Other non-operating items	£(146)m	£(206)m
Finance costs	£(103)m	£(99)m
Profit before tax attributable to non-controlling interest	£31m	£16m
Loss before tax attributable to owners	**£(1,679)m**	**£(437)m**
Tax credit attributable to owners	£421m	£192m
Loss after tax attributable to owners	**£(1,258)m**	**£(245)m**

† 30 June 2022 has been restated under IFRS 17 and reflects the allocation of expenses from service companies, previously shown as their own business segment

Key messages

- Heritage adjusted operating profit broadly consistent year-on-year
- Open adjusted operating profit increased year-on-year due to an increase in the CSM release from both BPA new business and positive assumption changes relating to the prior year
- Adverse economic variance primarily a result of rising yields and a rise in global equity markets, offset by rising inflation, narrowing credit spreads and strengthening of GBP, which are lower year-on-year due to reduced market volatility
- Other non-operating items include a gain on the Sun Life of Canada UK acquisition, offset by costs to support our growth strategy, the impact of setting up a new European subsidiary, costs relating to our ongoing integrations and other corporate project costs

5% growth in the Group CSM in H1, driven by new business and the Sun Life of Canada UK acquisition

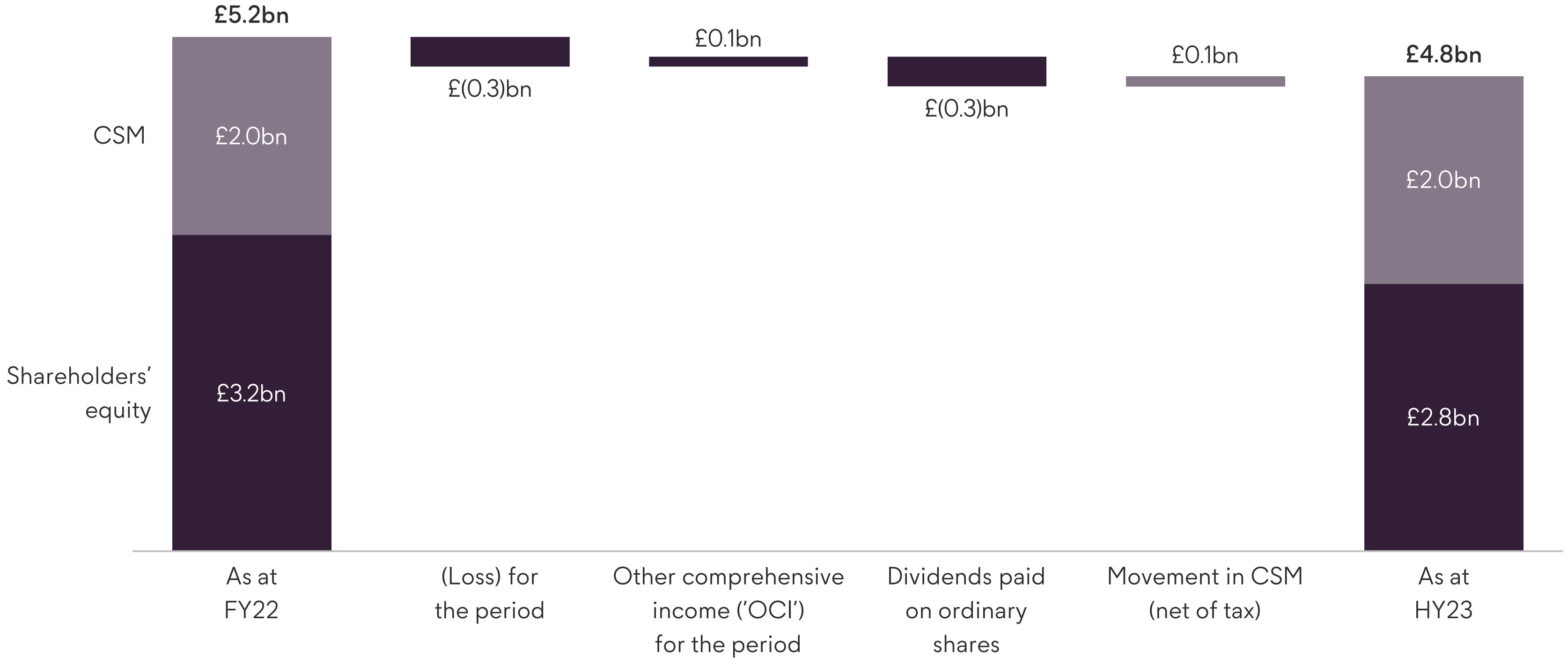
Movement of the CSM from 1 January 2023 to 30 June 2023

Key messages

- Total CSM (gross of tax) of £2.7 billion grew 5% in the first half (FY 2022: £2.6 billion), primarily due to new BPA business written and the acquisition of the Sun Life of Canada UK business in 2023
- The net CSM release of £143 million has increased by 25% year-on-year (HY 2022: £114 million), reflecting the growth in annuity CSM from new business and favourable assumption changes relating to the prior year
- The release represents 5% of the closing net CSM (gross of tax) pre release of £2.9 billion
- Expect the release of the CSM (gross of tax) to be c.5-7% over time, primarily driven by Annuities

Decrease in adjusted shareholders' equity in H1 2023 driven by statutory loss and payment of 2022 Final dividend

Movement of IFRS 17 adjusted shareholders' equity over H1 2023



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

Key messages

- IFRS 17 adjusted shareholders' equity has decreased by £0.4 billion due to a reduction in shareholders' equity
- This reflects an IFRS loss after tax attributable to shareholders for HY 2023 of £261 million and payment of the Final 2022 dividend of £260 million, partly offset by positive OCI movements on the Group's currency hedges and pension scheme liabilities
- The net CSM after tax is unchanged at £2.0 billion (FY 2022: £2.0 billion)

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