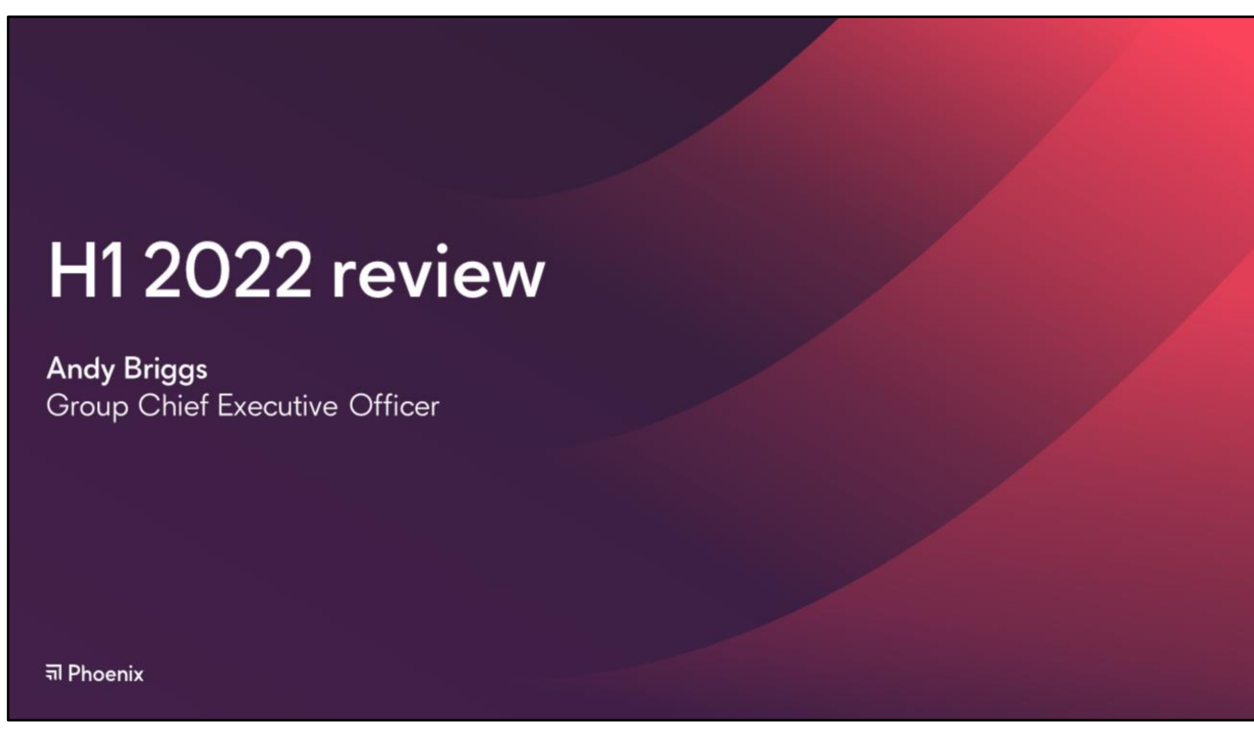
Phoenix
Half year 2022 results
Phoenix Group Holdings plc
15 August 2022



Good morning everybody, and welcome to Phoenix Group’s 2022 half year results presentation.

It is great to be presenting here, at our new London head office building, for the first time.

Thank you for coming, and welcome to those of you joining us on our live webcast.

Phoenix has had a fantastic first half

Record results across cash, resilience and growth in H1 2022

Strategic progress with strong delivery across all five strategic priorities

Growing organically with £1.8bn of Open business net inflows and 42 Workplace new scheme wins

Growing inorganically announced our first ever cash funded acquisition, of Sun Life of Canada UK

Dividend growth with a 3% YOY Interim increase and 2.5% inorganic increase proposed at the Final

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Phoenix has had a fantastic first half, despite the tough economic backdrop.

We have, once again, delivered a record set of results, across our financial framework of cash, resilience and growth.

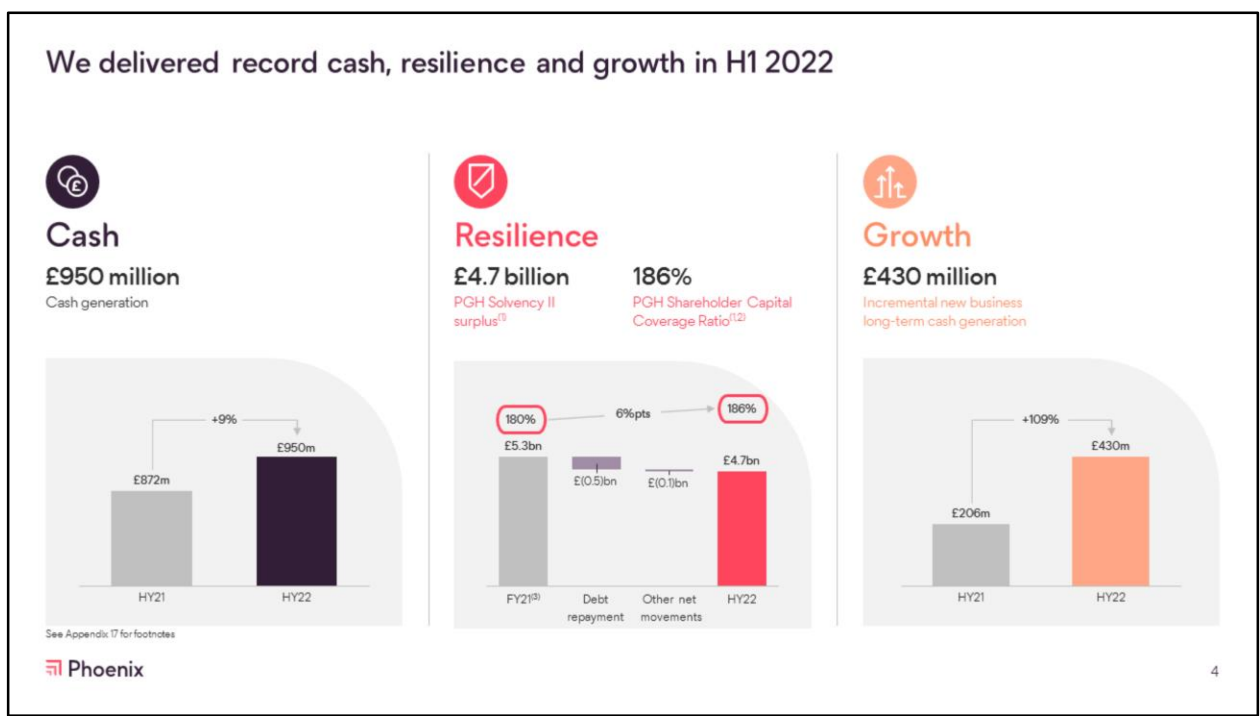
This was underpinned by the strong progress we have made across our wider strategic priorities, which ensure we are delivering for our customers, colleagues and investors. And on our core social purpose, and wider role in society.

We have continued to grow organically, delivering strongly for customers, with £1.8 billion of net inflows across our Open business, and a very pleasing 42 new Workplace pension scheme wins, in just six months.

And I am delighted that we have announced our first ever cash funded acquisition, of Sun Life of Canada UK, and can demonstrate the value creation available from smaller, cash funded M&A.

This means our dividend is now growing both organically, and inorganically.

We have therefore delivered on all of the key objectives I had set for the business at the start of the year, and I am proud of how well the team are delivering.



So, starting with the financials. Rakesh will cover this in more detail shortly, but in terms of the headlines…

We have delivered £950 million of cash generation in the first six months, and are now on track to be at the top-end of our target range for the year.

Our balance sheet remains both strong, and highly resilient, with our Solvency II surplus at £4.7 billion. While our shareholder capital coverage ratio of 186%, is above our target range, providing the capacity for us to invest into growth, such as the acquisition of Sun Life of Canada UK.

Finally, we have reported £430 million of new business long-term cash generation. This is more than double the first half of last year, on a like-for-like basis.

As you can see from this slide, we have continued to make excellent progress across our five strategic priorities, as we deliver on our purpose and strategy.

The strength of this delivery is down to the strong talent we have in our business. Engagement is high, as we prioritise our culture, and support our colleagues through the cost of living crisis through a range of measures.

This includes the payment of a one-off £1,000 net lump sum, to all employees, other than our Top 100 leaders.

I am not going to go through everything on the slide, but I did want to highlight a few key achievements.

Optimising our in-force business is the bedrock of Phoenix. I am therefore pleased that we have delivered a further £421 million of management actions, in the period. While we remain as super resilient as always, with both our long-term cash and Solvency surplus protected, despite the volatile markets.

We have also continued to enhance our operating model. With the standout success being the migration of all 400,000 Standard Life annuities to the TCS platform, which

is our first major migration off the legacy Standard Life mainframe. A great outcome for customers, and a key strategic milestone.

And we have also delivered a further £15 million per annum of cost synergies from ReAssure, which means that we have now exceeded our revised synergy target, with nearly £1.1 billion of synergies in just two years!

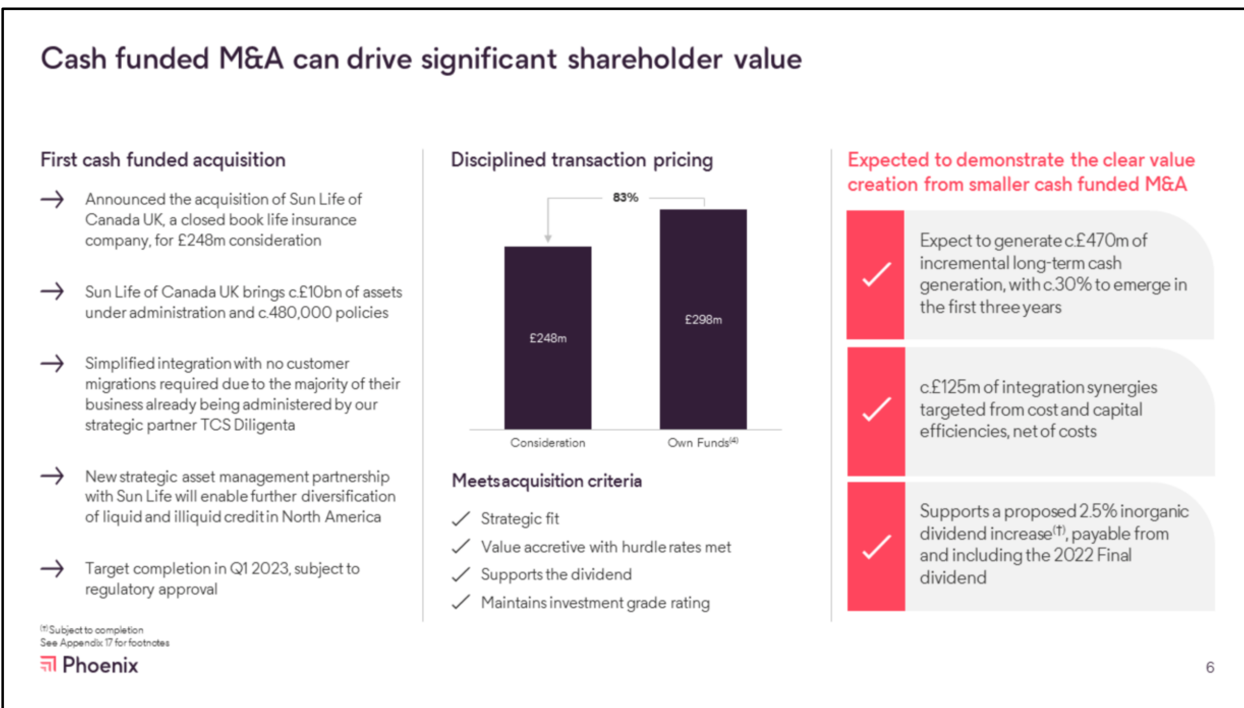
Our third strategic priority is to grow our business, to support both new and existing customers. Here we have continued to deliver organic growth in the first half, including another strong performance from BPA.

But most pleasing for me, is the clear momentum we have in our capital-light, fee-based businesses, with a £1.9 billion year-on-year increase in net fund flows.

Our fourth strategic priority is to innovate, to provide our customers with better financial futures. On the slide you can see just some of the initiatives we have delivered in the first half, that go right to the heart of our purpose. We are here to help our customers on their journey to and through retirement, which is even more important, given the current economic backdrop.

Finally, we have continued to invest in a sustainable future, as we respond to both the clear customer demand, and demonstrate leadership, as a purpose-led business.

So, in summary, a great start to the year.



However, probably the biggest achievement in the first half, has been the announcement of our first ever cash funded acquisition. Which I am confident will allow us to demonstrate the significant value for shareholders, available from smaller-sized, cash funded M&A.

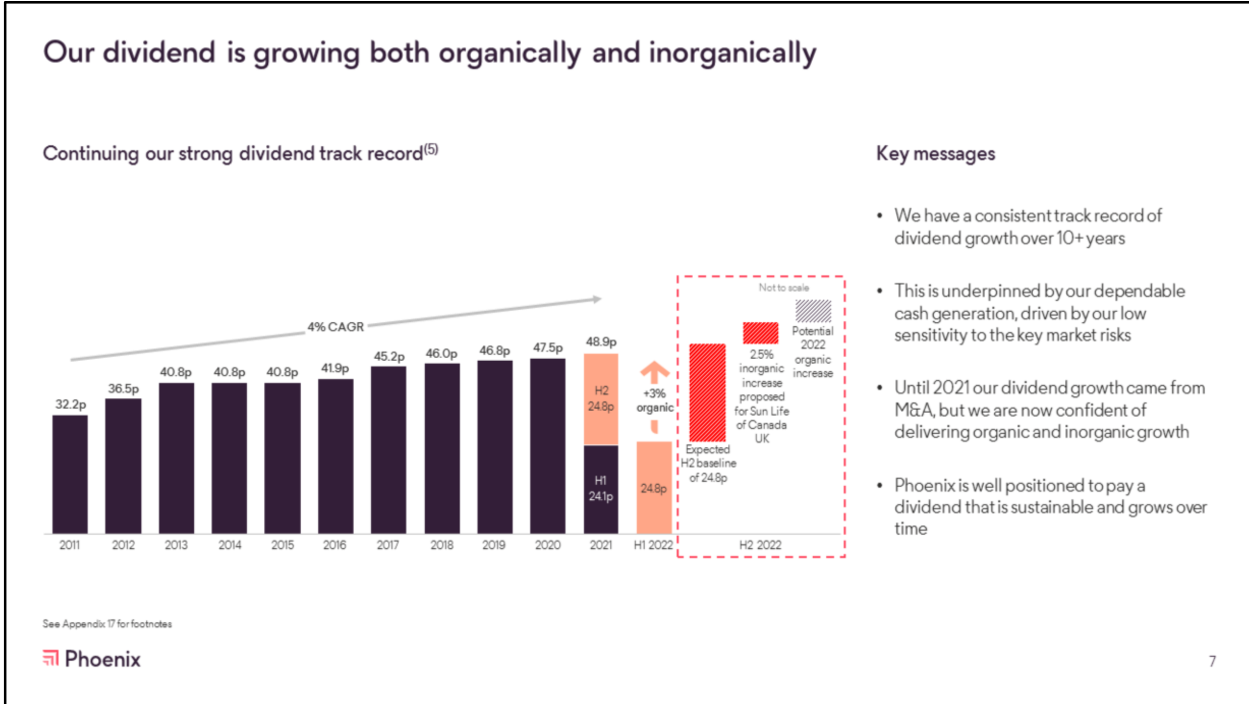
We very much look forward to welcoming the Sun Life of Canada UK customers and colleagues to the Group. It will be a simplified integration, as the vast majority of the business is already with TCS Diligenta, who are, of course, our strategic partner here.

As responsible stewards of shareholder capital, we have remained disciplined in our transaction pricing. With the £248 million consideration, representing an attractive price-to-own-funds of 83%, the lowest multiple for any deal we have ever done.

We expect to generate £470 million of incremental long-term cash generation, from this acquisition, with around 30% of that to emerge in the first three years. And we are targeting £125 million of net synergies.

As a result of the value creation expected from this transaction, I am delighted that the Board has been able to propose a 2.5% inorganic dividend increase that, subject to completion, will be effective from the 2022 final dividend.

This is “proof of concept”, that smaller, cash funded M&A can add significant shareholder value. And we expect further opportunities to emerge over time.



So, what does our success in the first half mean for our dividend trajectory?

As you can see, we have a consistent track record of dividend growth over the past 10 years, having delivered a compound annual growth rate of 4%, primarily driven by M&A.

Last year, as you know, we delivered our first ever organic dividend increase, from the growth of our Open business.

This year, our Interim Dividend is, as ever, equal to last year's Final dividend. Which is a 3 percent increase year-on-year, reflecting last year's organic growth.

Looking forward to the second half, we have the opportunity to prove our unique business model, by delivering both organic and inorganic dividend growth

With the 2.5% increase already announced for our recent acquisition, and the potential for an organic increase as well.

Phoenix is therefore well positioned to deliver on our policy of paying a dividend that is sustainable and grows over time.

And with that, I will now hand you over to Rakesh, who will cover the financials in more detail.

H1 2022 financial results

Rakesh Thakrar
Group Chief Financial Officer

Phoenix

Thank you Andy and good morning everybody.

There are three key things I want you to take away from our financial results today.

Firstly, we continue to deliver dependable cash generation, which underpins our reliable dividend.

Secondly, we remain as resilient as ever and are well hedged against the challenging economic backdrop.

And thirdly, we are on track to deliver both organic growth, and inorganic growth, which will support our dividend that is sustainable and grows over time.

So, turning to the slides…

Strong financial performance in H1 2022

Cash Resilience Growth

Financial performance:		HY21	HY22	YOY change
Cash	Cash generation	£872m	£950m	+9%
New Business	Incremental new business long-term cash generation	£206m	£430m	+109%
Dividend	Interim dividend per share	24.1p	24.8p	+3%
IFRS	Operating profit before tax	£527m	£507m	-4%

Balance sheet:		FY21	HY22	6 month change
Solvency II Capital	PGH Solvency II Surplus[1,3]	£5.3bn	£4.7bn	-11%
	PGH Shareholder Capital Coverage Ratio ('SCCR')[1,2,3]	180%	186%	+6%pts
Assets	Assets under administration	£310bn	£269bn	-13%
Leverage	Fitch leverage ratio	28%	27%[6]	-1%pt

See Appendix 17 for footnotes

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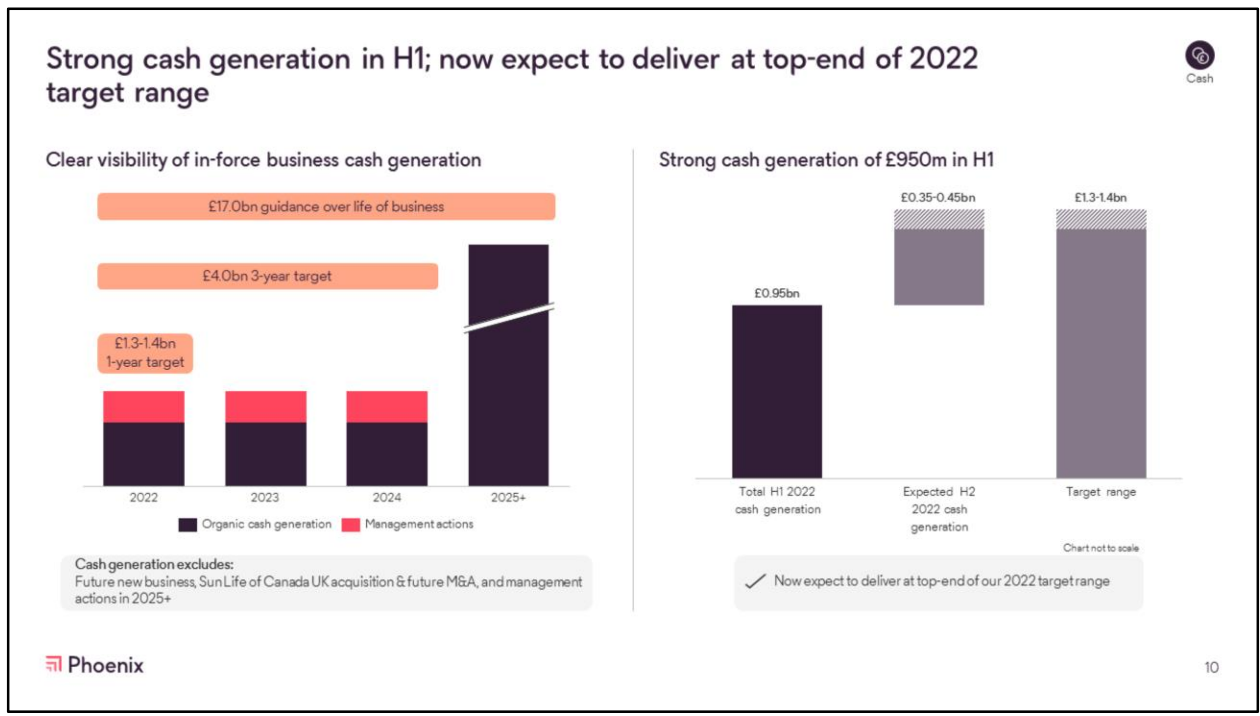
As Andy said, Phoenix has delivered a strong financial performance in the first half of 2022.

We delivered cash generation of £950 million in the period, maintained our strong Solvency balance sheet, and more than doubled our new business long-term cash generation to £430 million.

Our leverage ratio has also reduced to 27% following a £450m debt repayment in July.

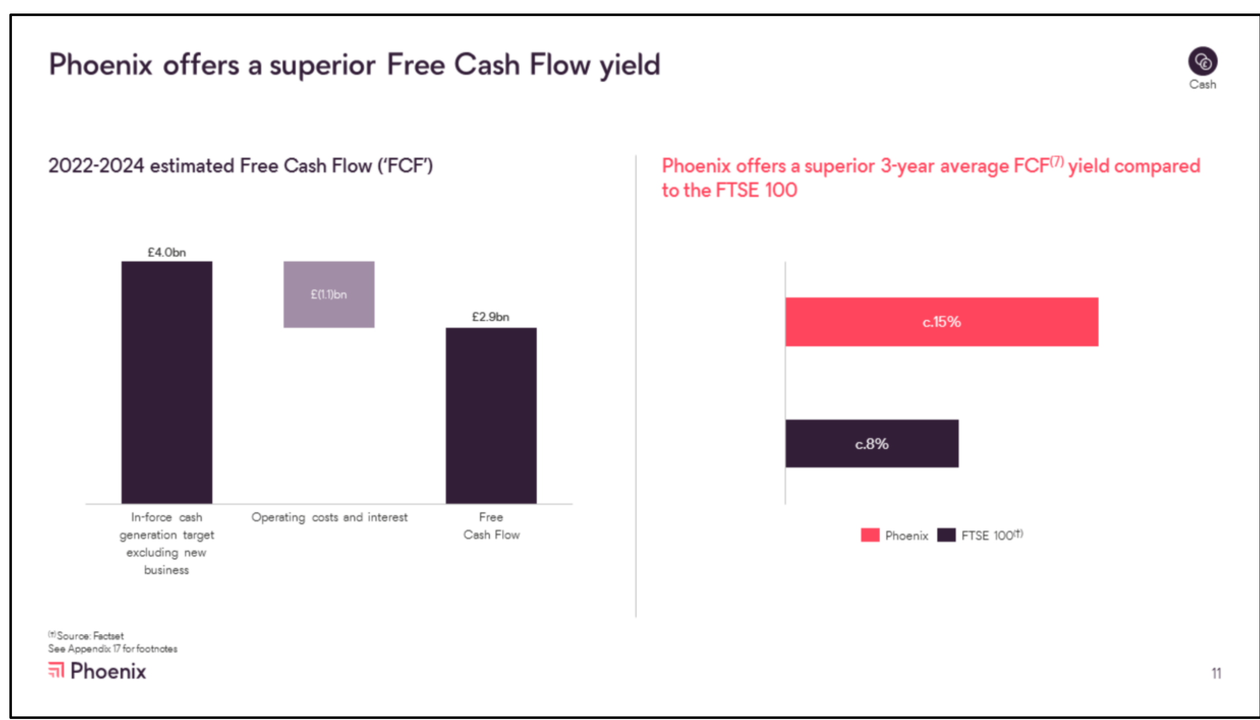


Starting first with cash. Phoenix is unique in its ability to deliver dependable cash generation over the very long term.

This enables us to set very clear one-year and three-year targets, and provide guidance for lifetime cash generation.

I want to talk to you about each one of those in turn. Starting with the one-year target.

We have delivered £950 million of cash generation in the first half, and now expect to deliver at the top end of our target range of £1.3-to-£1.4 billion for the full year. We have also set a three-year cash generation target of £4.0 billion, which I will take you through over the next two slides.



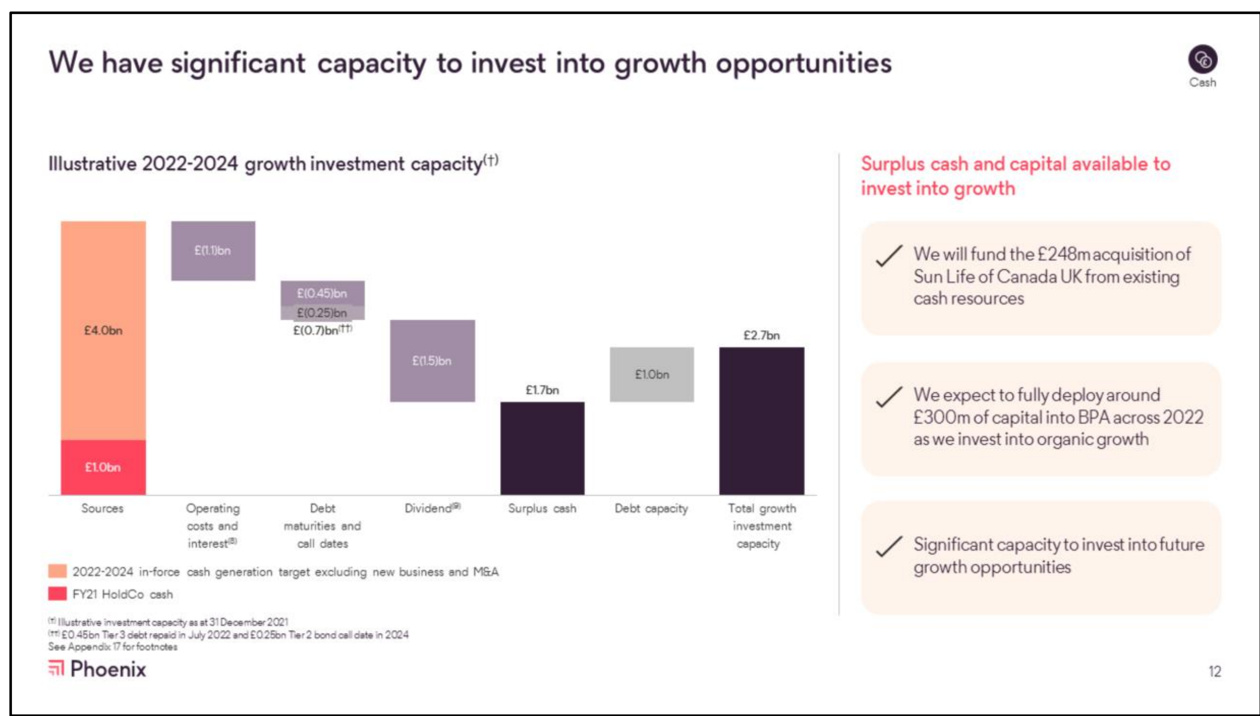
We are often asked by investors who are not insurance specialists, how they can compare the performance of Phoenix, against companies in the wider market.

We primarily run our business to generate cash, and this is easily comparable.

Looking at the £4.0 billion of cash we expect to generate over the next three years, and after deducting our operating costs and debt interest, we are left with around £2.9 billion of free cash flow.

This translates into an impressive three-year average free cash flow yield of 15 percent, nearly double the FTSE100 average.

This demonstrates just how cash generative our business is relative to companies in the wider market.



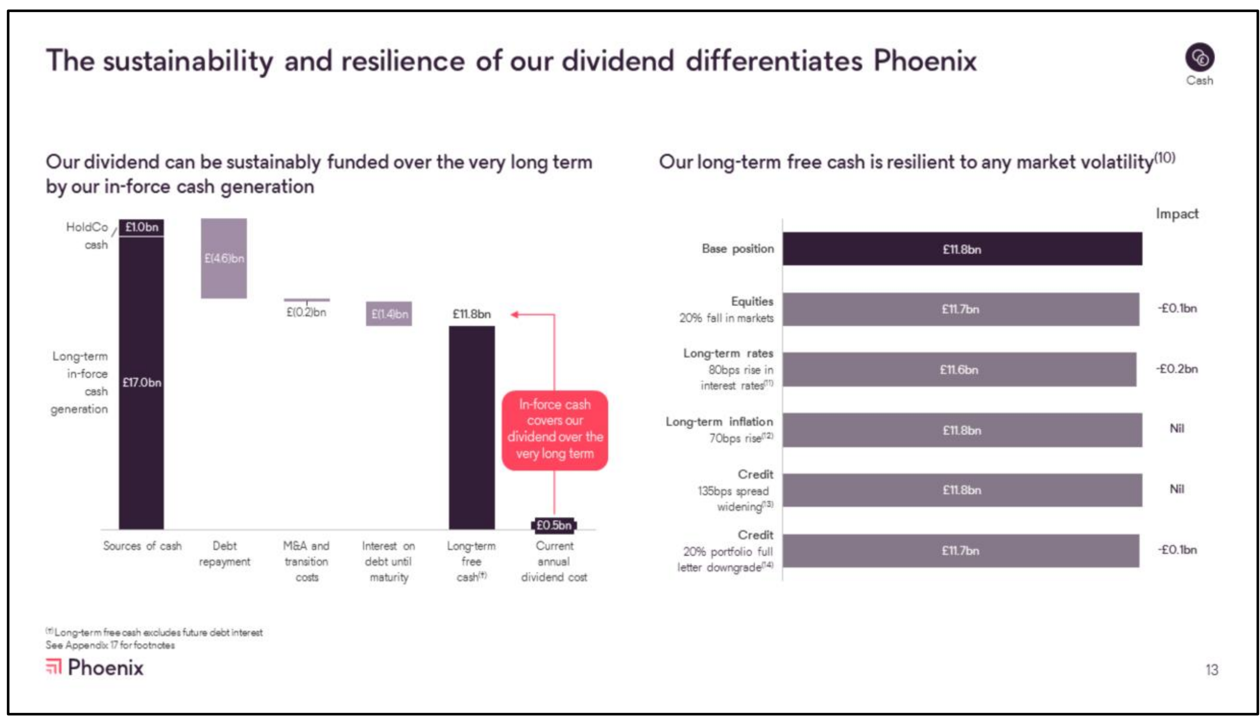
This slide sets out the expected sources and uses of cash generation over the next three years as at 31 December 2021.

And shows that we expect to generate £1.7 billion of surplus cash.

We also have the capacity to raise up to a further £1 billion in debt, while remaining within our leverage target ratio.

This means we have a total of £2.7 billion available for growth.

This provides us with the capacity to cash fund the Sun Life of Canada UK acquisition, invest our target allocation of around £300 million into BPA in 2022, and to continue investing into future growth opportunities over time.



Finally on cash, we have provided guidance for lifetime cash generation of £17 billion.

After servicing and redeeming all outstanding debt, and deducting committed integration costs, we expect £11.8 billion of long-term free cash available to shareholders.

And this long-term free cash number is prudent, because it is from our in-force business only, so does not include any new business or M&A, nor management actions past 2024.

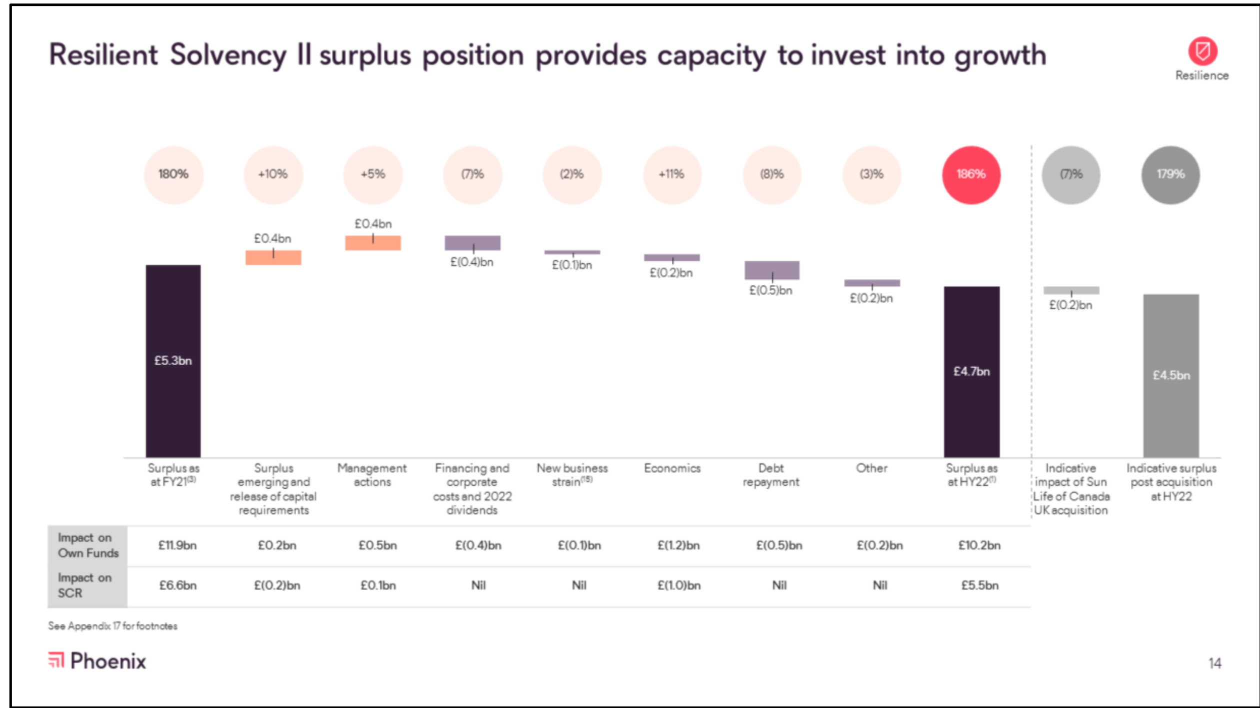
This means we can cover our £500 million annual dividend cost over the very long term.

Protecting the resilience of this long-term free cash is therefore key in ensuring the long-term sustainability of our dividend.

We view the key market risks associated with equities, interest rates and inflation as unrewarded risks, as they could cause volatility to the value of this cash.
Therefore we hedge these risks to mitigate the volatility and deliver dependable cash

generation

Which means there is no material impact on our long-term free cash from the key market risks, as you can see on the right hand side of this slide.
We are therefore well positioned to continue delivering for our shareholders in this challenging economic environment.



Our Solvency II capital position remains strong, with a resilient surplus of £4.7 billion, which, as ever, reflects the accrual of our interim dividend.

Our strong capital position enabled us to repay the £450 million Tier 3 bond that matured in July, which was deducted from our June solvency position.

Our economic variance was once again small, at just £0.2 billion, despite the market volatility.

This reflects our approach of hedging the majority of our market risks, which is designed to stabilise our Solvency II surplus and our long-term free cash.

This in turn underpins the resilience of our dividend over the long term.

However, our approach does result in temporary Own Funds volatility.

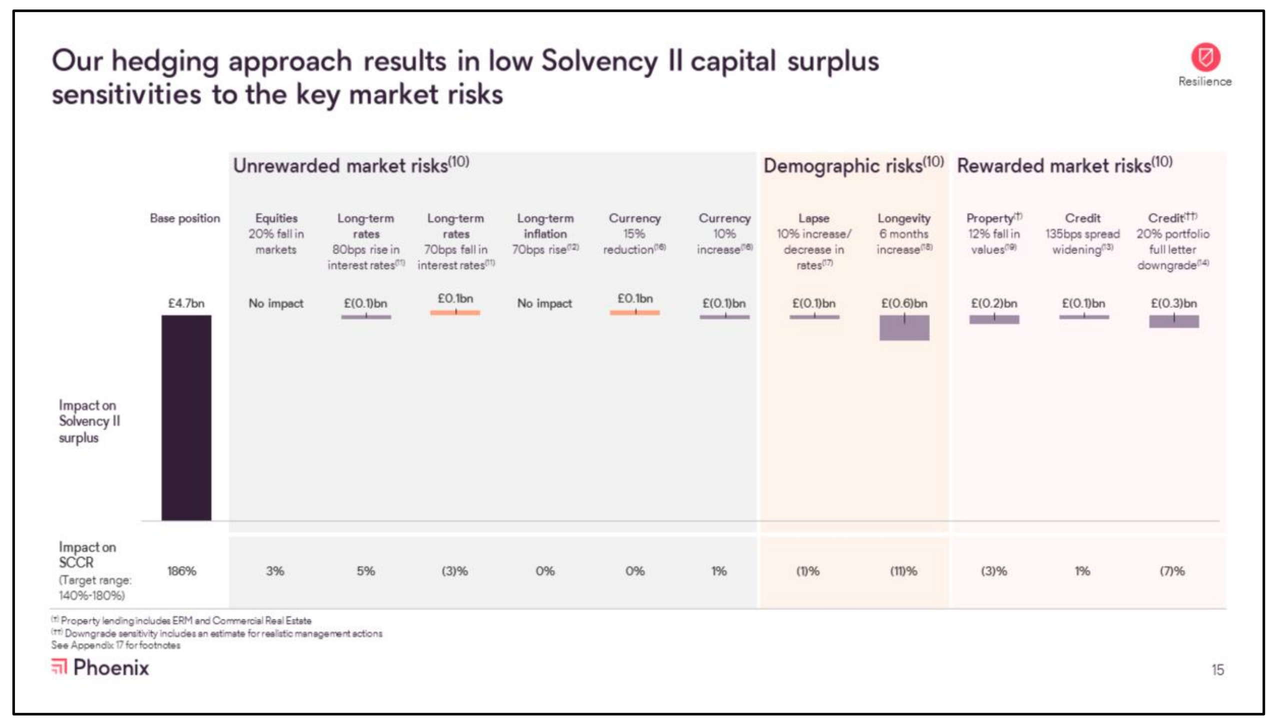
This is a trade-off we accept, to deliver the sustainable and resilient dividend that Phoenix is known for, and which our shareholders value.

And looking to the Full Year, I currently expect our surplus of £4.7 billion to remain

broadly stable.

Meanwhile, our shareholder capital coverage ratio has increased to 186%
And the recently announced acquisition of Sun Life of Canada UK is expected to reduce this to 179%, on a pro forma basis.

With our Solvency shareholder ratio at the top end of our target range of 140-to-180%, we have the capacity to invest into future growth opportunities.



As I have explained, delivering resilience in our balance sheet is fundamental to Phoenix.

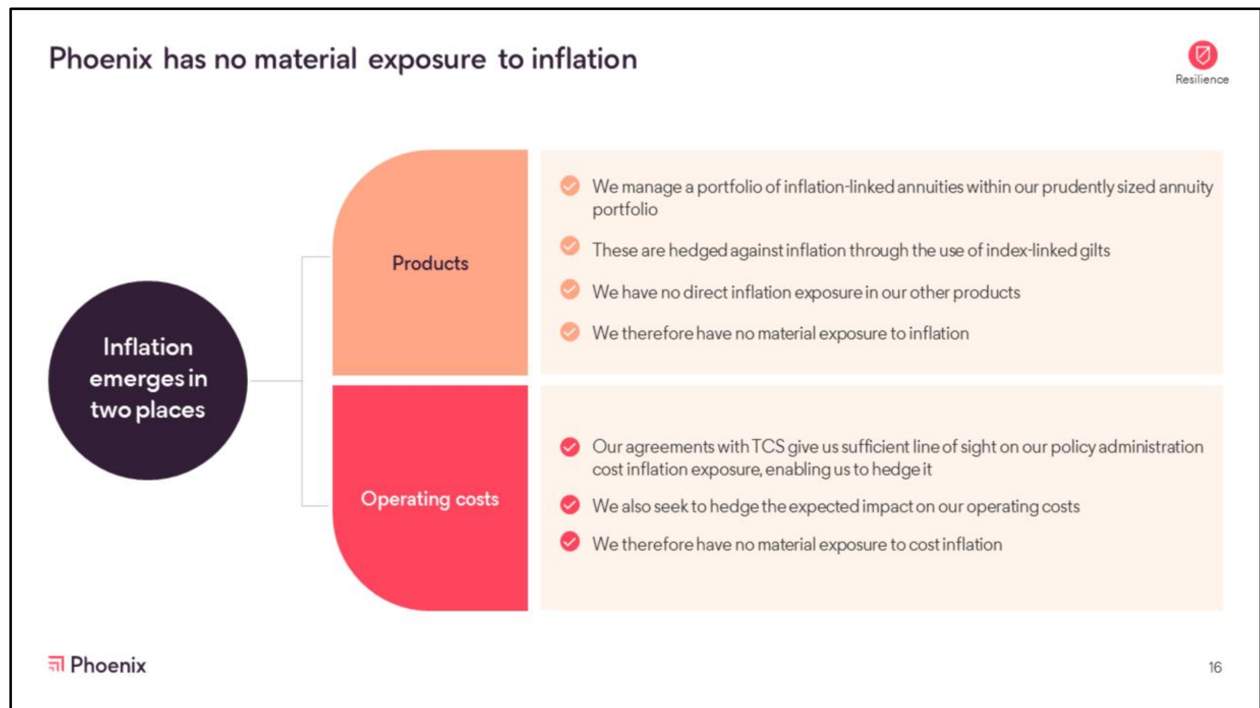
We therefore have a low appetite for retaining equity, interest rate, inflation and currency risks, which we see as unrewarded, and hedge.

This translates into the low sensitivities presented here.

We also manage our longevity risk through reinsurance, retaining around half of the risk across our current in-force book, and reinsuring most of the risk on new business.

We continue to see credit risk as rewarded and actively manage our portfolios to ensure they remain high quality and diversified.

The key sensitivity we focus on here is a full letter downgrade of 20% of our credit portfolio, which is currently £0.3 billion, after expected management actions, and small in the context of our £4.7 billion Solvency II surplus.



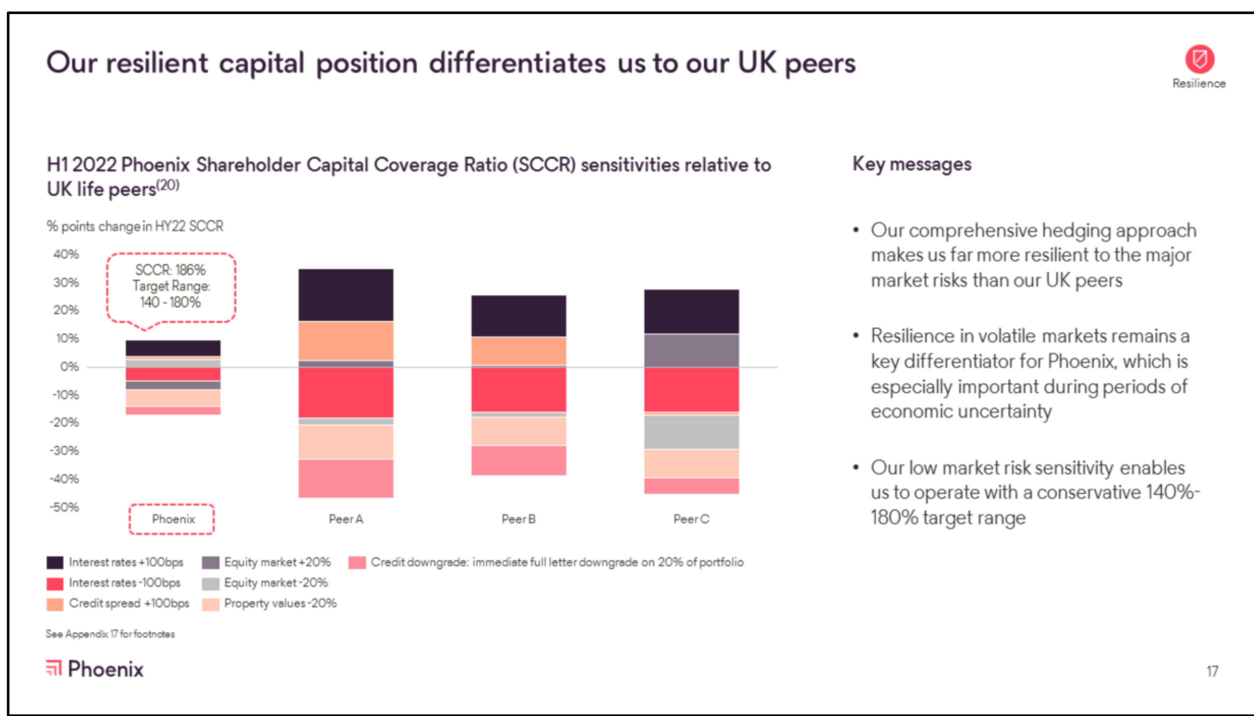
Given inflation is so topical at the moment, I thought it was worth reiterating that we have no material exposure to inflation.

Inflation emerges in two principal areas within our business, both of which we have hedged.

Firstly, we have the inflation linked annuities, which are hedged with index-linked gilts.

And secondly we have the exposure on our policy administration and operating costs, which we also hedge.

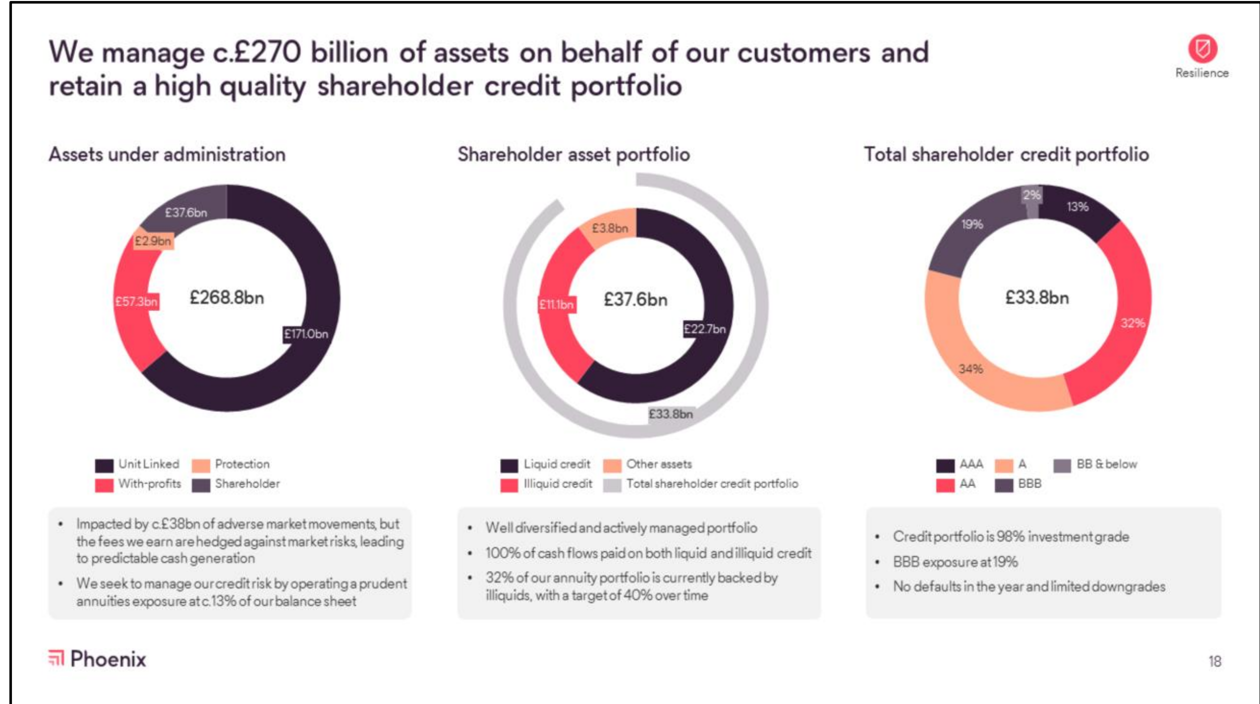
All of which means that the current inflationary environment will have no material financial impact on Phoenix.



As I have shown many times before, as a consequence of our comprehensive hedging approach, we continue to be far more resilient to the major market risks than our UK peers.

This low sensitivity is especially important during times of market volatility, as we have at present.

And it therefore remains a key differentiator for us.



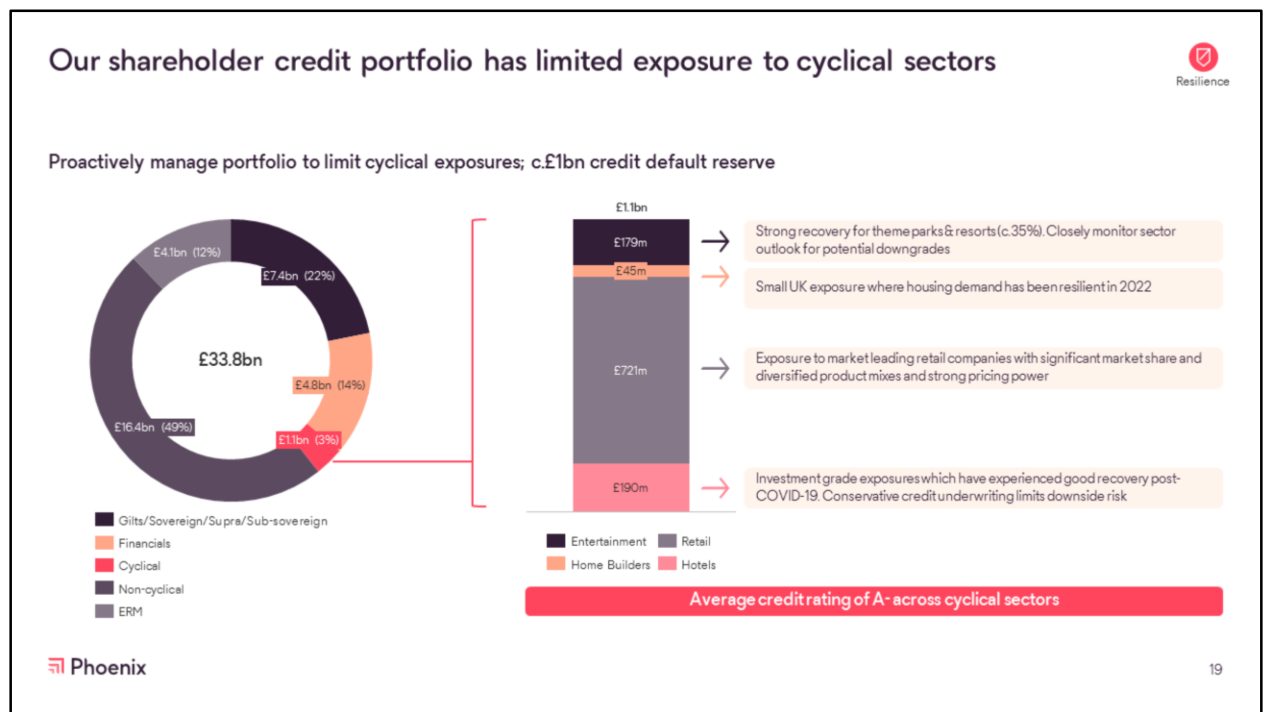
We manage around £270 billion of assets on behalf of our customers and shareholders.

Our assets reduced in the period by around £38 billion, due to the significant market movements experienced by all.

However, these market movements have a limited impact on the fees we earn, as we hedge the annual management charges against movements in equities and interest rates.

We maintain a prudent, diversified £34 billion shareholder credit portfolio, comprising both liquid and illiquid credit.

With a BBB exposure of 19%, and our BBB minus exposure at just 3%.

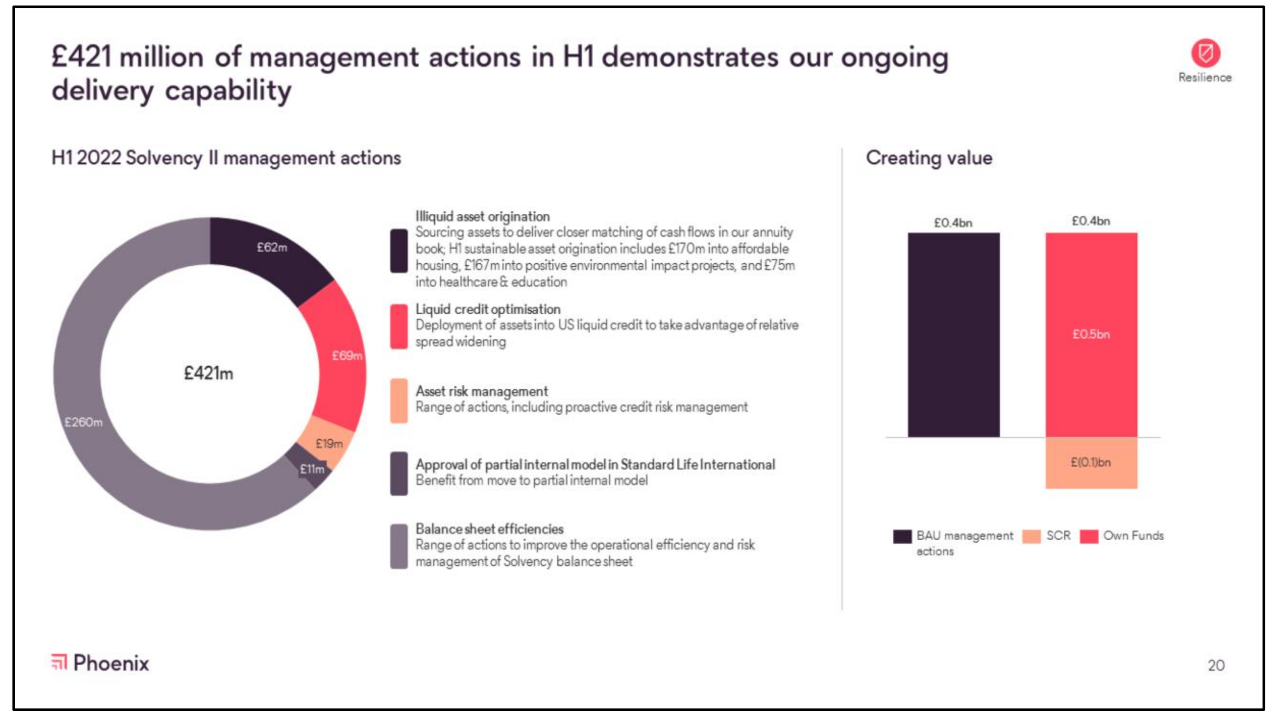


We also remain conservative in the sector positioning of our credit portfolio, and have sought to limit our exposure to highly cyclical sectors by further rotating out of these during the first half.

As a result, we have only £1.1 billion, or 3%, of our £34 billion credit portfolio exposed to cyclical sectors.

However, these are with high-quality counterparties as evidenced by an average credit rating of A minus.

And we continue to have a circa £1 billion credit default reserve.
We therefore remain very comfortable with the quality of our credit portfolio.



Our ability to deliver value-accretive management actions is a key differentiator for Phoenix, and optimising our inforce business is one of our five key strategic priorities.

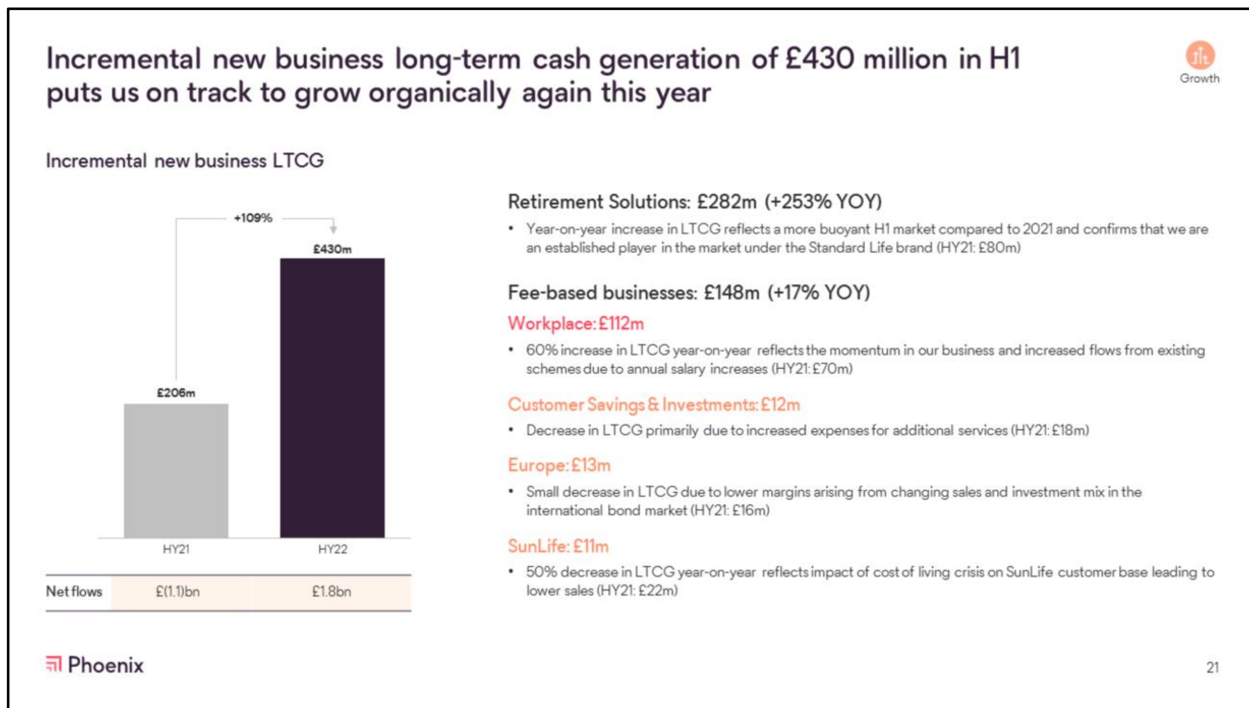
We continue to demonstrate our capability here, with over £400 million of management actions delivered in the first six months of the year.

These were primarily from recurring “business as usual” actions, which are not reliant on integrations and will continue into the long term.

This included our ongoing illiquid asset origination, where we delivered a 60 basis points illiquidity premium.

We also invested over 50% of our illiquid assets, excluding ERM, into sustainable assets during the period.

And we have proactively deployed into US liquid credit, to take advantage of relative spread widening, and delivered a host of other balance sheet optimisation actions too.



Moving now to Growth and it is great to see that our investment here is paying off.

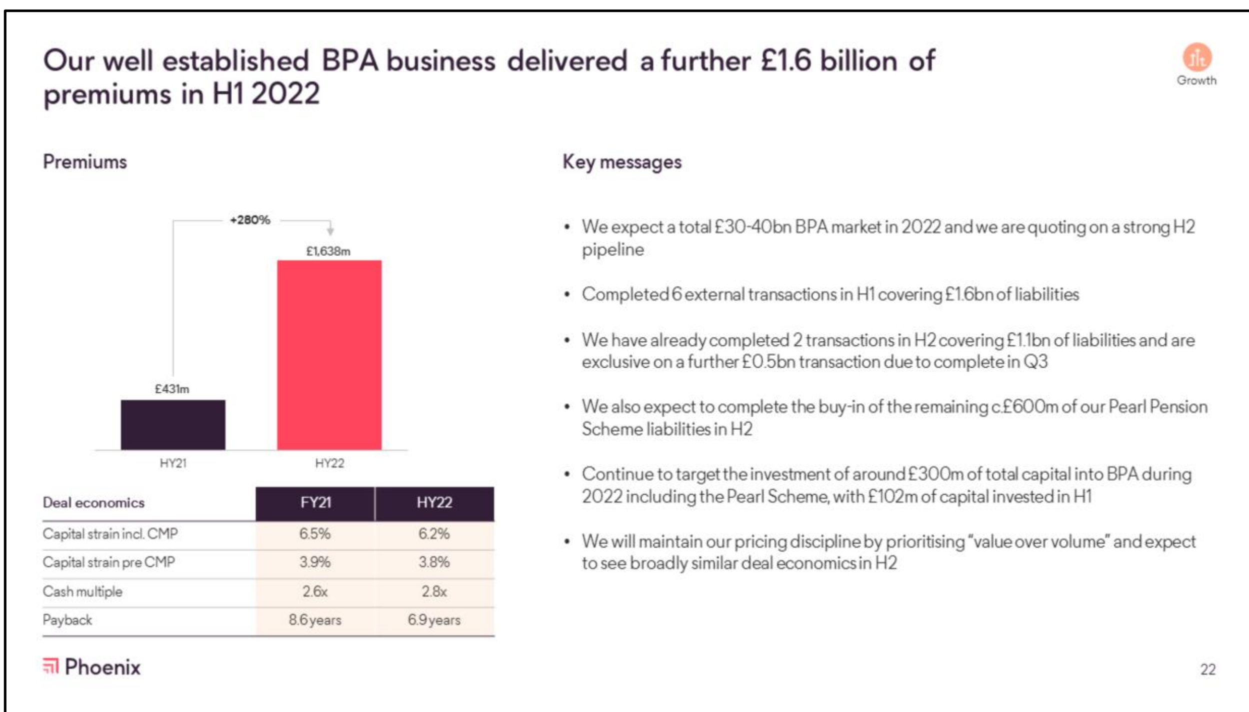
I am delighted that we have more than doubled new business long-term cash generation to £430 million, on a like-for-like basis.

Retirement Solutions contributed £282 million in the first half, delivering more than triple the volume in the first half of 2021 from external transactions.

Elsewhere, it was pleasing to see our fee-based businesses report a 17 percent year-on-year increase to £148 million.

Noting that the new business long-term cash generation here is seasonally more weighted to the first half.

Last year we delivered organic growth that more than offset the Heritage run-off for the first time, and given our performance in the first half of 2022, we are on track to achieve it again this year.



Deal economics	FY21	HY22
Capital strain incl. CMP	6.5%	6.2%
Capital strain pre CMP	3.9%	3.8%
Cash multiple	2.6x	2.8x
Payback	8.6 years	6.9 years

2021 was the year that Phoenix, through our newly acquired Standard Life brand, firmly established itself as a key player in the BPA market.

We have built on this foundation with a strong start to 2022, having completed £1.6 billion of premiums across 6 external transactions.

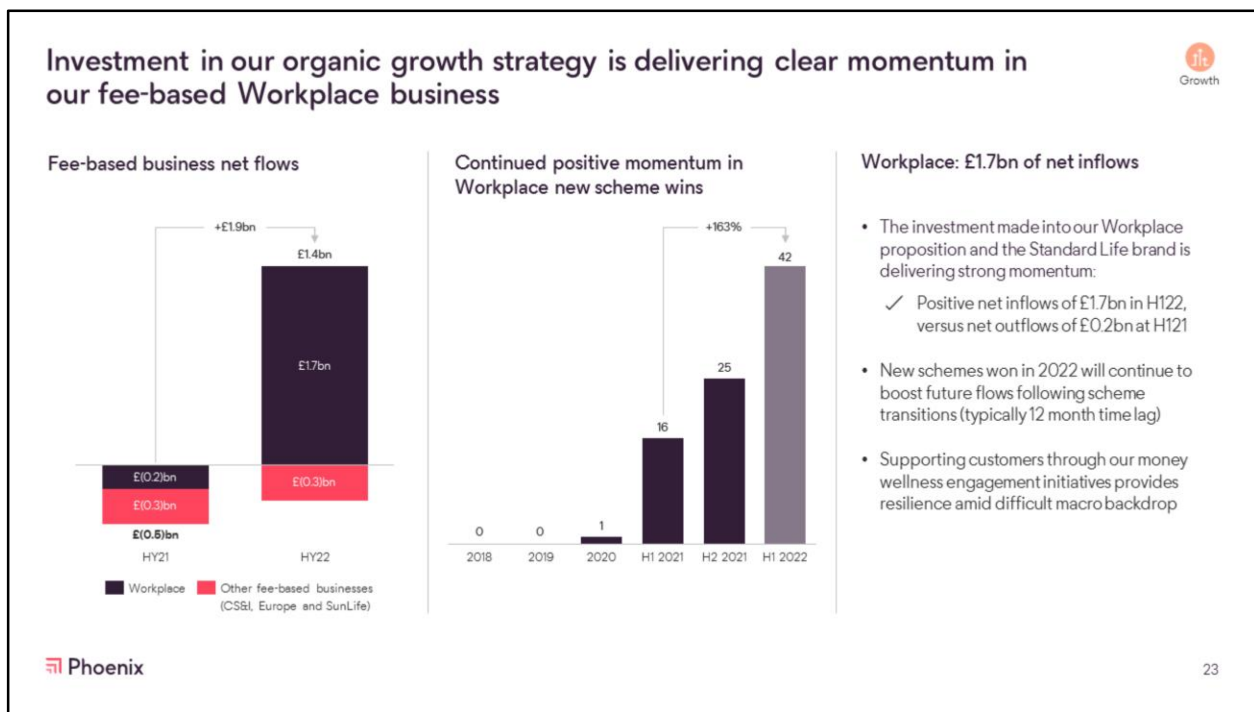
Our capital strain has also reduced again, from 6.5% last year to 6.2% in the first half, which on a pre-capital management policy basis equates to 3.8% and we have improved both the cash multiple and payback, leading to improved IRRs in the period.

Looking forward, we have a very strong pipeline for the second half.

We have already completed two further transactions totalling £1.1 billion, and are exclusive on another £500 million transaction expected to complete in Q3.

We will also complete the buy-in of the remaining £600 million of the Pearl Pension Scheme liabilities in the second half too.

As a result, we are confident of fully deploying our target level of capital into BPA this year, of around £300 million, with the second half deal economics expected to be broadly similar to the first half.



I was particularly pleased to see the strong turnaround in net flows from our capital-light fee-based business in the first half.

We delivered a net inflow of £1.4 billion in the period, compared to a £0.5 billion outflow in the same period last year. An improvement of £1.9bn!

This was driven by our Workplace business, where the investment we have made into our proposition and into our Standard Life brand, is enabling us to both retain our existing schemes and win new schemes in the market.

As you can see, the momentum in scheme wins continues to accelerate, with 42 new scheme wins in the first half of 2022, which is more than the whole of 2021 already! The scheme wins this year do remain in the smaller scheme category, but we are now being invited to bid for the larger schemes, and we are confident we will be successful here too.

Our IFRS operating profit remained strong at £507 million

Cash Resilience Growth

	HY21	HY22
Heritage	£375m	£280m
Open	£178m	£287m
Service company	£2m	£(26)m
Group costs	£(28)m	£(34)m
Operating profit before tax	**£527m**	**£507m**
Investment return variances and economic assumption changes	£(824)m	£(1,076)m
Amortisation and impairment of intangibles	£(299)m	£(258)m
Other non-operating items	£28m	£(280)m
Finance costs	£(111)m	£(103)m
Profit before tax attributable to non-controlling interest	£51m	£31m
(Loss) before tax attributable to owners	**£(628)m**	**£(1,179)m**
Tax (charge)/credit attributable to owners	£(39)m	£303m
(Loss) after tax attributable to owners	**£(667)m**	**£(876)m**

Key messages

- Heritage operating profit decreased due to lower with-profit expected return, and adverse experience and assumption changes
- Open business operating profit increased due to stronger new business profit from BPAs and positive methodology changes
- Service company and Group costs reflect enlarged Group with new capabilities to support growth
- Adverse investment return variances primarily driven by accounting losses due to higher yields and widening of credit spreads
- Other non-operating items include one-off costs relating to the re-phased Standard Life platform migration, as well as IFRS 17 costs and investment in growth
- Tax credit due to reduction in deferred tax liability following adverse market movements in H1

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Turning to our IFRS results.

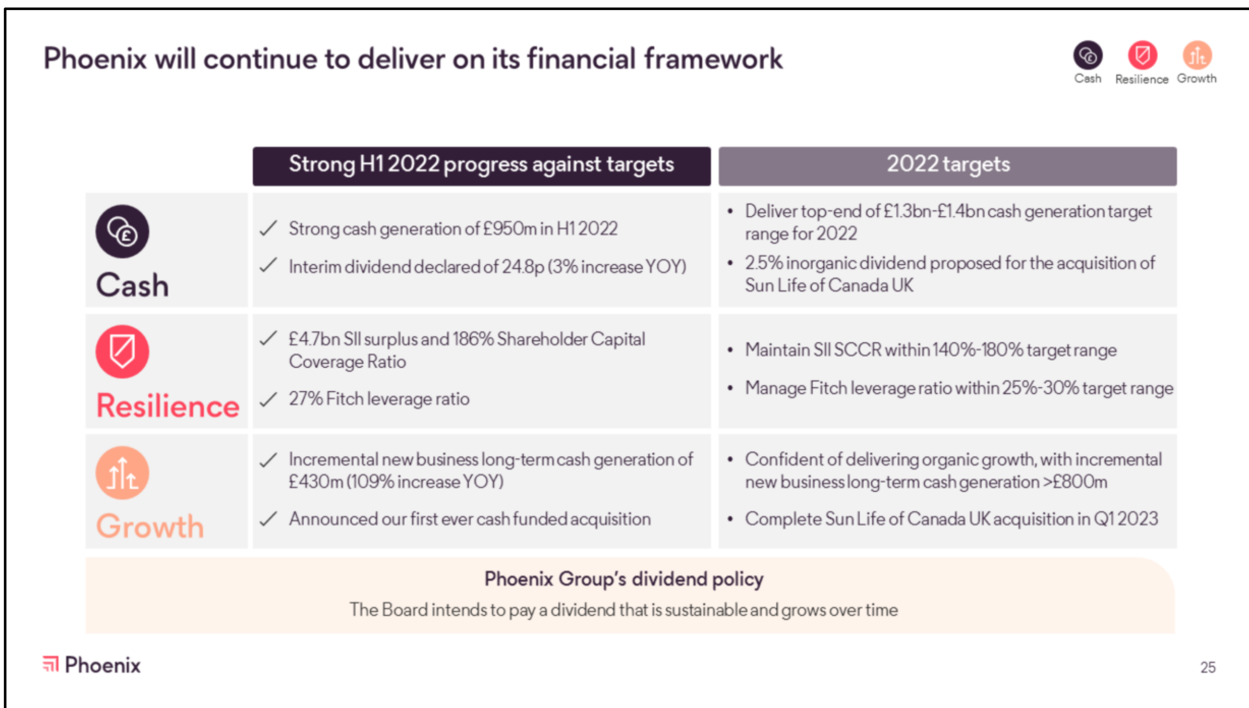
We delivered operating profit of £507 million in the first half of 2022, marginally down on the prior year.

This included increased BPA new business profits in our Open division, offset by a reduction in Heritage, primarily due to a lower expected return as the business runs-off.

We also experienced adverse investment variances under IFRS from rising yields, due to our hedging approach of protecting the Solvency balance sheet and our long-term free cash.

Other non-operating items include a provision for future project costs in relation to the re-phasing of our Standard Life IT migration, that we told you about at the Full Year.

It also includes costs in relation to IFRS 17, and the planned investment into projects to support our Open growth strategy.



So, to conclude.

We delivered strong financial results in the first half of 2022, across our financial framework of cash, resilience and growth.

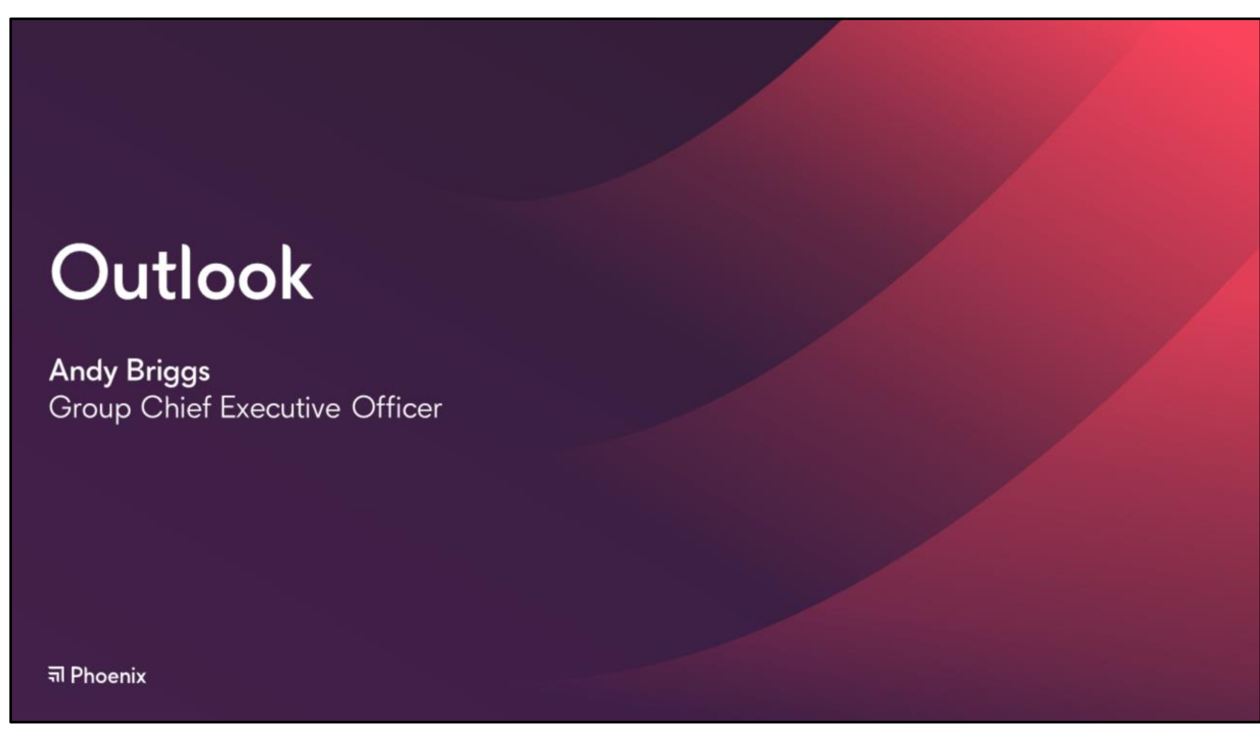
And we are on track to deliver across all of our targets for 2022.

This includes delivering at the top end of the 2022 cash generation target range of £1.3 to £1.4 billion, and retaining our resilient balance sheet, by operating within our target ratio ranges for Solvency and leverage.

In terms of growth, we are confident of delivering more than £800m of long-term cash generation from new business this year.

And we are aiming to complete the acquisition of Sun Life of Canada UK in Q1 2023. This will support us in delivering on our dividend policy, which is to “pay a dividend that is sustainable and grows over time”.

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


Outlook
Andy Briggs
Group Chief Executive Officer
Phoenix

Thanks Rakesh

As I have said before, I passionately believe that the best businesses have a core social purpose, which is why ours is 'helping people secure a life of possibilities'. Helping a broad range of people in the UK, to journey to and through retirement, and enjoy a better later life.

As a purpose-led organisation, we look to have the best people, who are focused on our purpose, to then deliver better outcomes for our customers and wider society, and in turn, produce stronger returns for all of our investors.

The virtuous circle you see on this slide.

And sustainability is embedded throughout this. From engaging customers with their financial futures, to being a model employer, to investing our £270 billion of assets to support net zero and levelling up.

This purpose-led approach underpins everything we do at Phoenix, and I am confident it will enable us to execute on the clear growth opportunities ahead of us.

Standing in the shoes of our customers, there are a number of sources of retirement income available to them.

And these underpin the four major trends in the UK long-term savings and retirement market, which offer us multiple growth opportunities.

The first is the huge stock of legacy pensions and savings products. Where we can improve customer outcomes, by moving them from outdated legacy systems, to more modern platforms. There are £480 billion of Heritage assets, much of which we believe will come to market over time

The next key customer income source is from the £2 trillion of defined benefit liabilities in the UK. This underpins what is a thriving BPA market, of around £40 billion per annum, where we are performing strongly.

And finally, we have the capital-light, fee-based, defined contribution pensions, offered through the workplace, and direct to individuals.

In the Workplace market, which we believe will see around £40 billion of flows per annum, we have been building strong momentum.

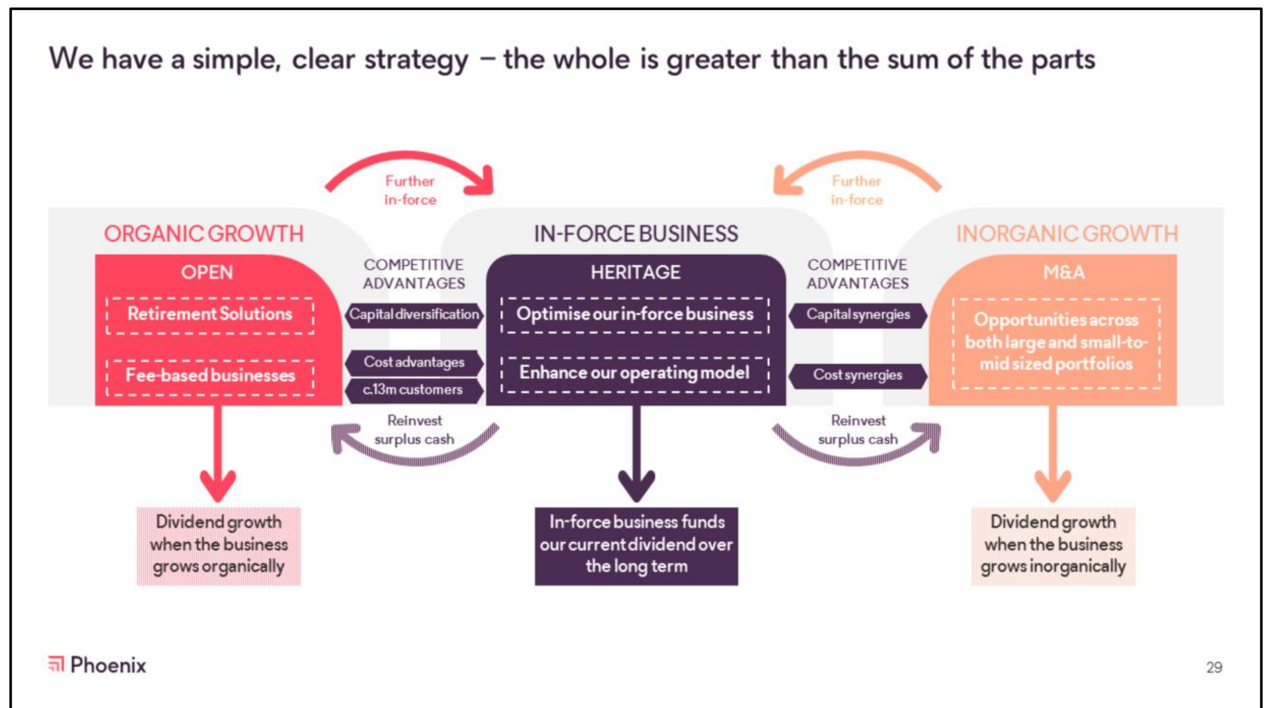
While in the individual pensions and savings market, which is another £40 billion of flows, we have been working on developing innovative retirement income solutions.

The right hand side of this slide sets out the impact, on these market growth trends, of the current economic environment.

We believe it accelerates both the M&A market, due to cost inflation pressures for vendors, and the BPA market, where rising rates make BPA transactions more affordable for corporates.

Clearly many people are facing significant challenges from the cost of living crisis, and this is impacting spending habits and bank deposits.

So far, we have seen limited change in pension contributions, and do not currently envisage a material impact on our fee-based businesses. But importantly, as we did in our response to COVID, we will continue supporting our customers in every way we can.



We have a clear and differentiated strategy, which creates shareholder value, through leveraging all four of the major market trends I have just covered. It is simpler and more focused than our peers.

Heritage is the bedrock of our business, which delivers high levels of predictable cash, that covers our dividend into the very long term.

And it also generates surplus cash, that we can re-invest into both our Open business, to support organic growth, and into M&A, to deliver inorganic growth.

Both of which can underpin future dividend increases.

But what really differentiates Phoenix, is how the whole is greater than the sum of the parts, with our Heritage business creating clear competitive advantages in both Open and M&A.

For our Open business, diversification with our large Heritage book means we will be more capital efficient than peers, particularly in Retirement Solutions, including BPAs.

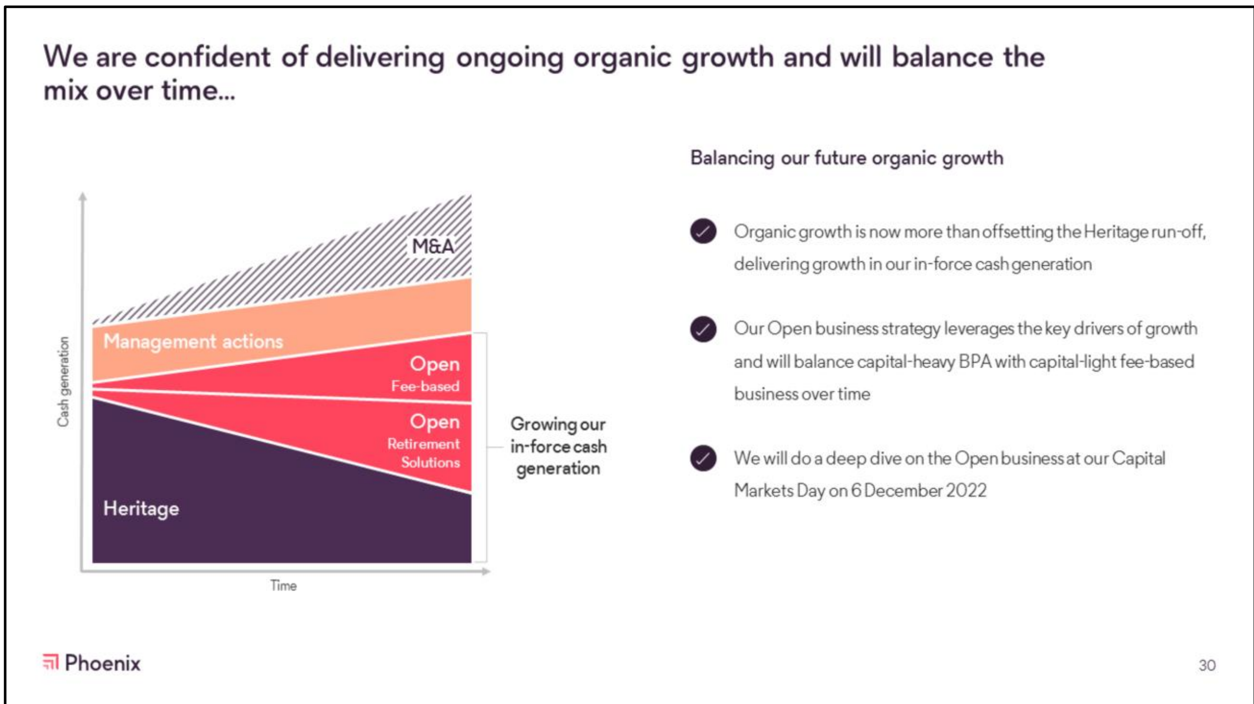
Where we are already at a 3.8% capital strain, on a more comparable, pre capital management policy basis.

While our strategic partnership with TCS, provides us with a market-leading, cost-per-policy, administration platform, that will give us a meaningful cost advantage, for our fee-based businesses over time.

Now to be clear, we are not fully leveraging these advantages for our Open business today. But if you think about the progress we are making, and the structural competitive advantage we will have in time, I think this is really exciting.

And exactly the same logic applies when we do M&A. Which enables us to generate significant cost and capital synergies, to underpin our ongoing track record of shareholder value creation in M&A. As evidenced by the Sun Life of Canada UK transaction, where our synergy target is a 50% uplift on the price paid.

So a simple, clear strategy.



2021 was a pivotal year for Phoenix, as we delivered organic growth from our Open business, which more than offset the Heritage run-off, for the first time.

Which we accelerated through the acquisition of the Standard Life brand, and the investment into our Standard Life business.

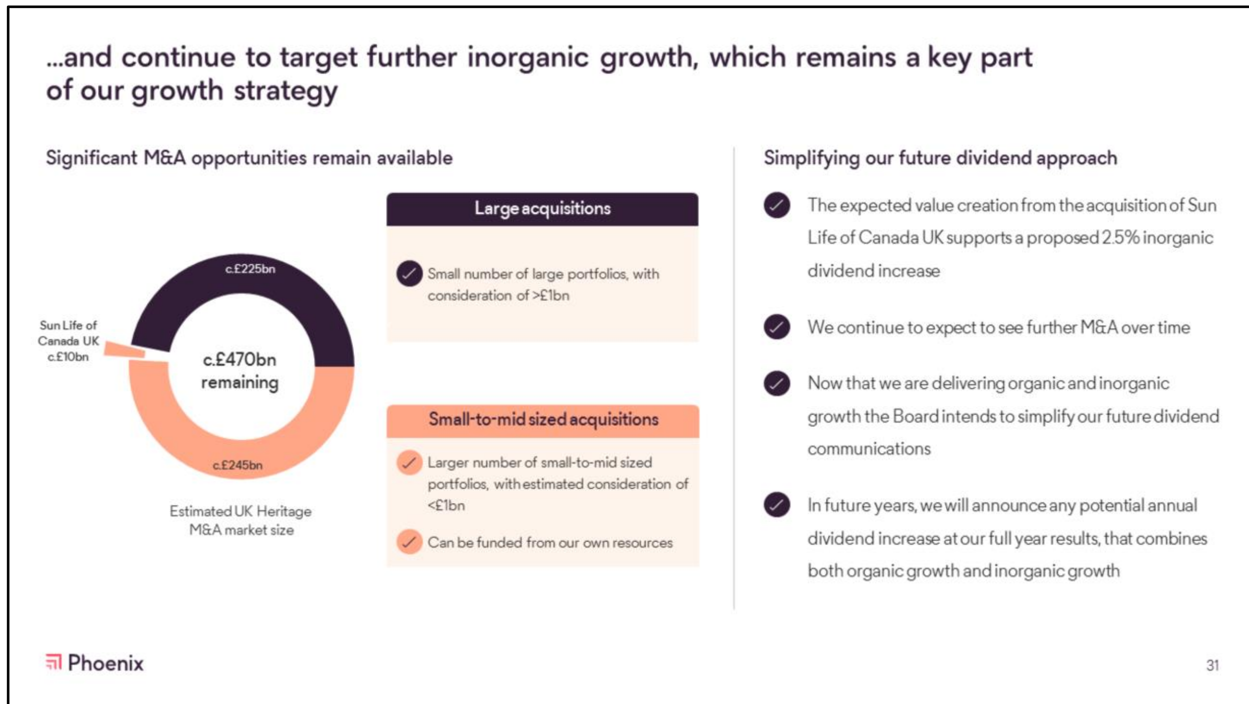
We are now confident of delivering this on an ongoing basis, and therefore expect to continue growing our in-force cash generation, over time.

I covered the four market trends earlier. Three of these are organic, and we will leverage all three of these.

We initially turned our focus onto BPA and have already become an established player in this market. We are now turning our attention to the fee-based businesses, with our momentum in Workplace building, and a big opportunity in Individual Pensions & Savings to go at too.

Over time we expect to balance our growth between BPA, and the capital-light fee-based businesses.

We have scheduled a Capital Markets Day on 6th December, where we plan to do a deep dive into our Open business.



M&A remains a core part of our ongoing growth strategy, both large and small, with the remaining £470 billion of UK Heritage assets potentially available over time.

I continue to have “cups of tea” with my fellow insurance CEOs, and the message from the majority of them remains very much one of, “when, not if”.

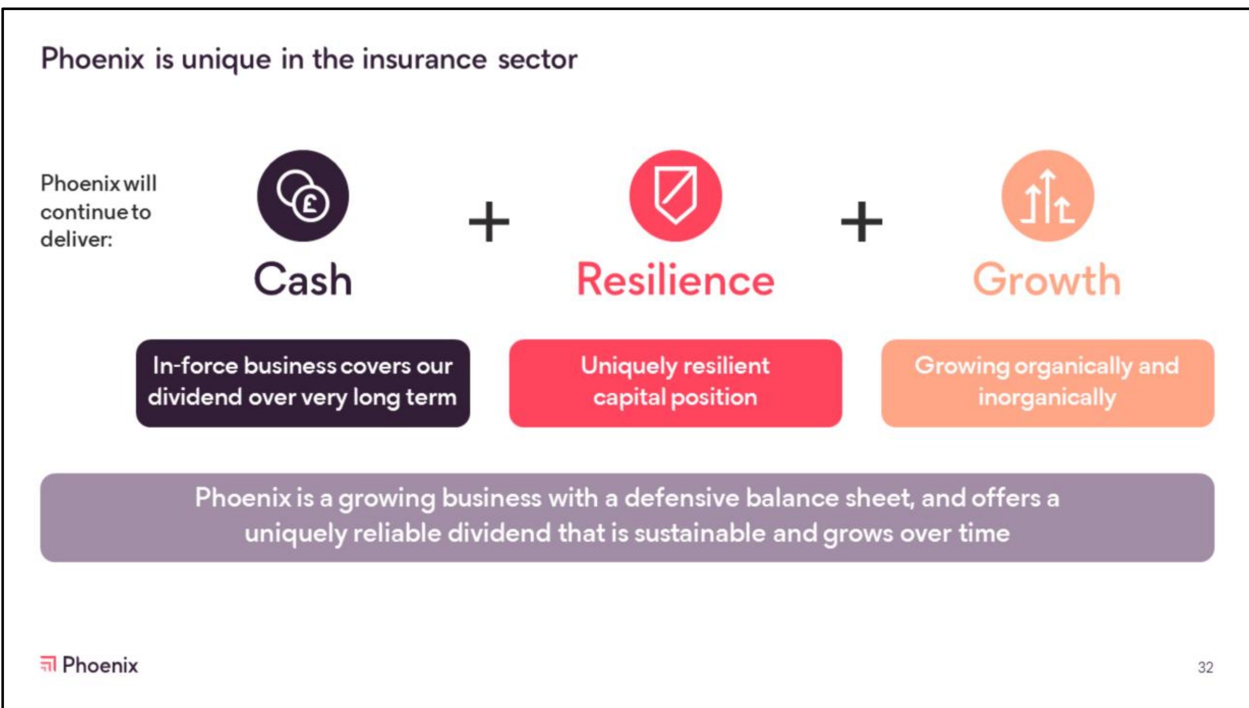
We stand ready to consider our next deal, enabled by our scalable platforms, and our £1 billion of remaining firepower.

With Sun Life of Canada UK being our first ever cash funded acquisition, it was important that we clearly demonstrate the benefit for shareholders, from smaller-sized cash funded M&A.

And we did this by announcing our proposed inorganic dividend increase, with the transaction announcement.

However, going forward, given the Board’s confidence that we can now deliver both organic and inorganic growth, on an ongoing basis, we intend to simplify our dividend communications.

We will do this by announcing any potential annual dividend increase, at our full year results, and which will combine both organic, and inorganic growth.



In summary.

Phoenix is unique in the insurance sector.

With the cash from our in-force business funding our attractive dividend, over the very long term.

While our business is highly resilient, owing to our strong capital position, and our hedging, which protects both the capital position, and our long-term cash generation. Particularly important in these uncertain times.

And we are growing both organically, and inorganically.

This supports us in continuing to deliver cash, resilience and growth.

Phoenix is a growing business, with a defensive balance sheet, and offers a uniquely reliable dividend, that is sustainable and grows over time.

We believe this is hugely valuable. And particularly so, in an uncertain economic environment.

And with that, we will move to questions.

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.

For anyone dialled into the conference call, please let the operator know you have a question.

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 and on the call.

Investor Relations activity and contacts

25 August	Ex-dividend date for 2022 Interim dividend
26 August	Record date for 2022 Interim dividend
September-October	Half year 2022 results investor roadshow
12 September	Payment date for 2022 Interim dividend
12 September	Barclays Global Financial Services Conference in New York City (in person)
13-16 September	North American investor roadshow (in person)
6 December	Phoenix Group Capital Markets Day

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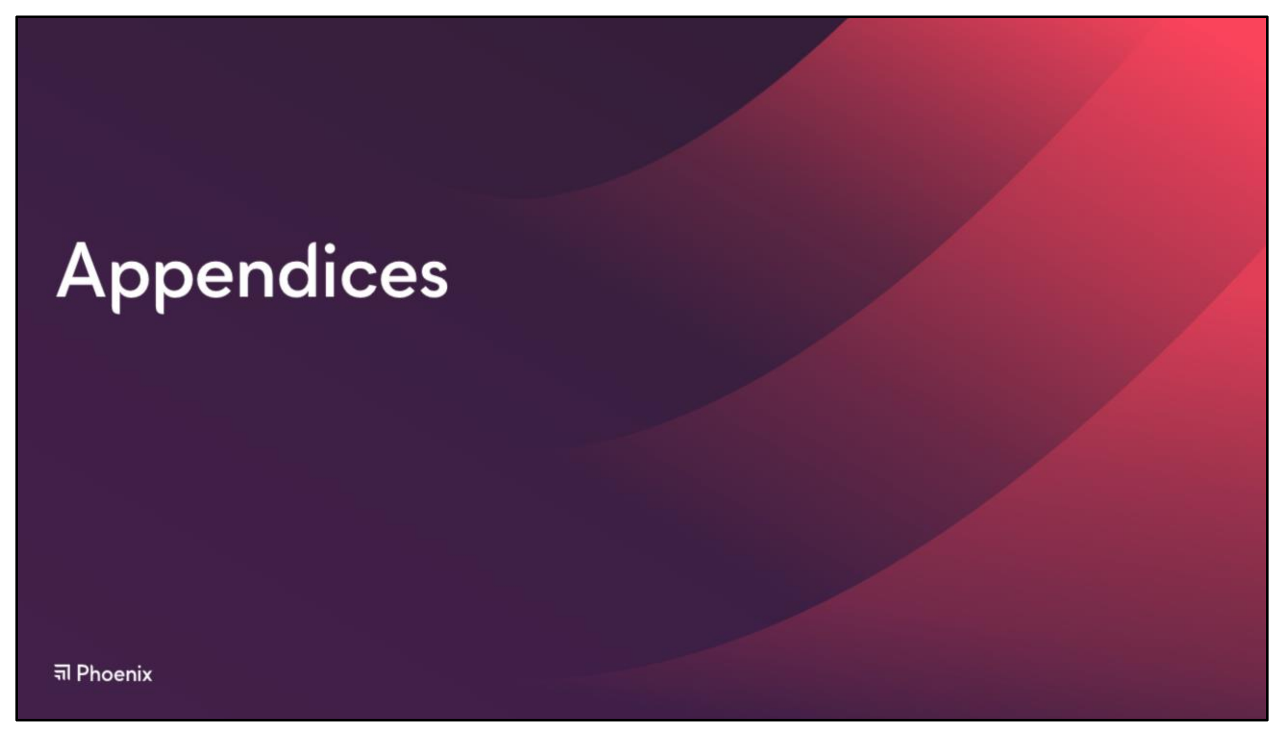
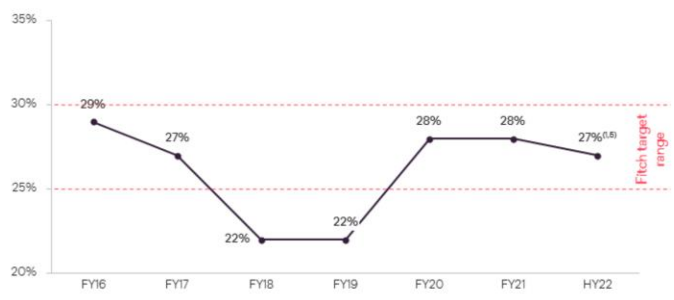

Appendices
Phoenix

Appendices

1. Leverage ratios
2. Debt maturity profile as at 15 August 2022
3. Movement in assets under administration
4. Open business segments movement in assets under administration
5. Breakdown of Open business segments as at 30 June 2022
6. Change in Life Company Free Surplus
7. Estimated PGH Solvency II surplus and coverage ratios
8. Additional Solvency II disclosures
9. PGH Solvency II Regulatory Capital Coverage Ratio sensitivities
10. H1 2022 operating profit drivers
11. Asset origination as at 30 June 2022
12. Diversification of illiquid asset portfolio as at 30 June 2022
13. Credit quality by sector for shareholder debt portfolio
14. Integration synergies
15. ESG ratings and collaborations
16. 2022 sustainability targets
17. Footnotes

Appendix 1: Leverage ratios

Fitch leverage ratio



Leverage ratios

	FY21	HY22
Fitch basis[2,5]	28%	27%
IFRS basis[3,5]	44%	44%
SII leverage[4,5]	31%	31%

- IFRS leverage ratio classifies RT1 as debt
- We estimate a funding capacity for inorganic growth as at HY22 of c.£1.3bn (pre funding of Sun Life of Canada UK acquisition)

[1] Phoenix calculated
[2] The Fitch leverage calculation = debt (senior debt + RCF + T2 bonds + T3 bonds) / debt + equity (Shareholder equity + Unallocated surplus + RT1)
[3] IFRS leverage calculation = debt (all debt including RT1) / debt + equity (Shareholder equity only)
[4] SII leverage calculation = debt (all debt including RT1) / SII regulatory Own Funds
[5] HY22 leverage ratio is pro forma for a £450m debt repayment made in July and allowing for currency hedges over foreign currency denominated debt

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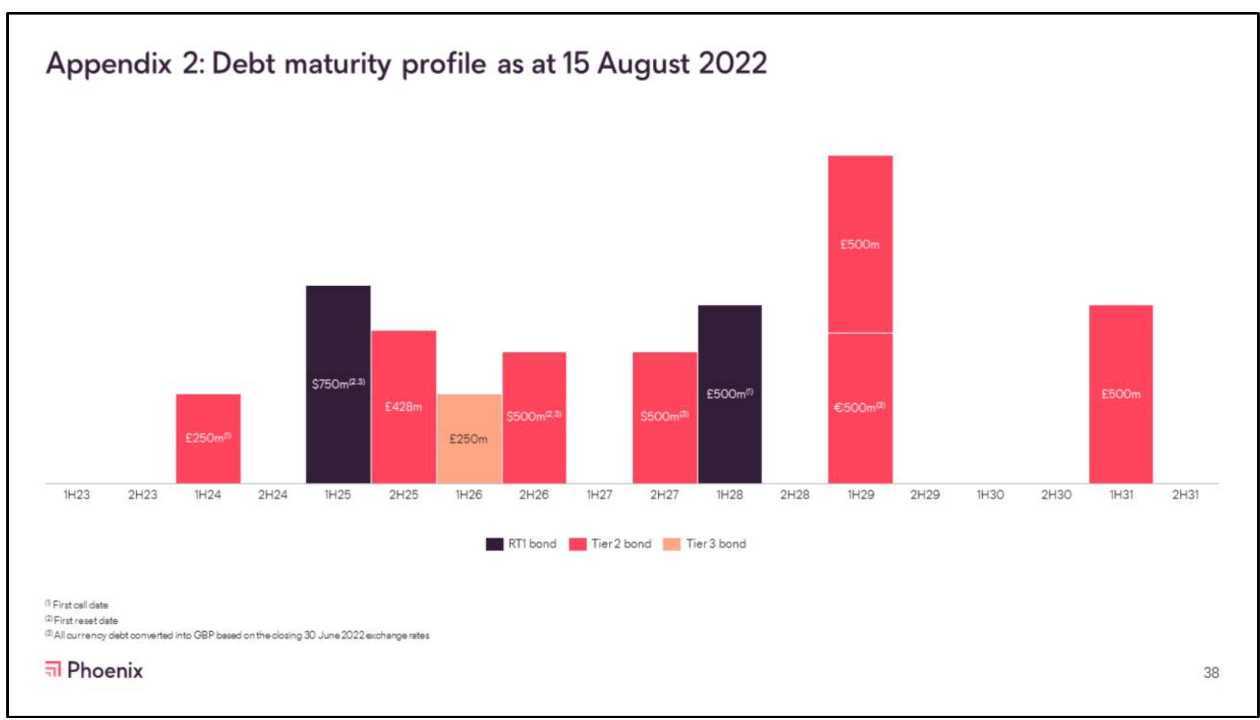

Appendix 2: Debt maturity profile as at 15 August 2022
£500m
$750m(2,3)
£428m
£250m(1)
£250m
$500m(2,3)
$500m(3)
£500m(1)
€500m(3)
£500m
1H23
2H23
1H24
2H24
1H25
2H25
1H26
2H26
1H27
2H27
1H28
2H28
1H29
2H29
1H30
2H30
1H31
2H31
RT1 bond
Tier 2 bond
Tier 3 bond
(1) First call date
(2) First reset date
(3) All currency debt converted into GBP based on the closing 30 June 2022 exchange rates
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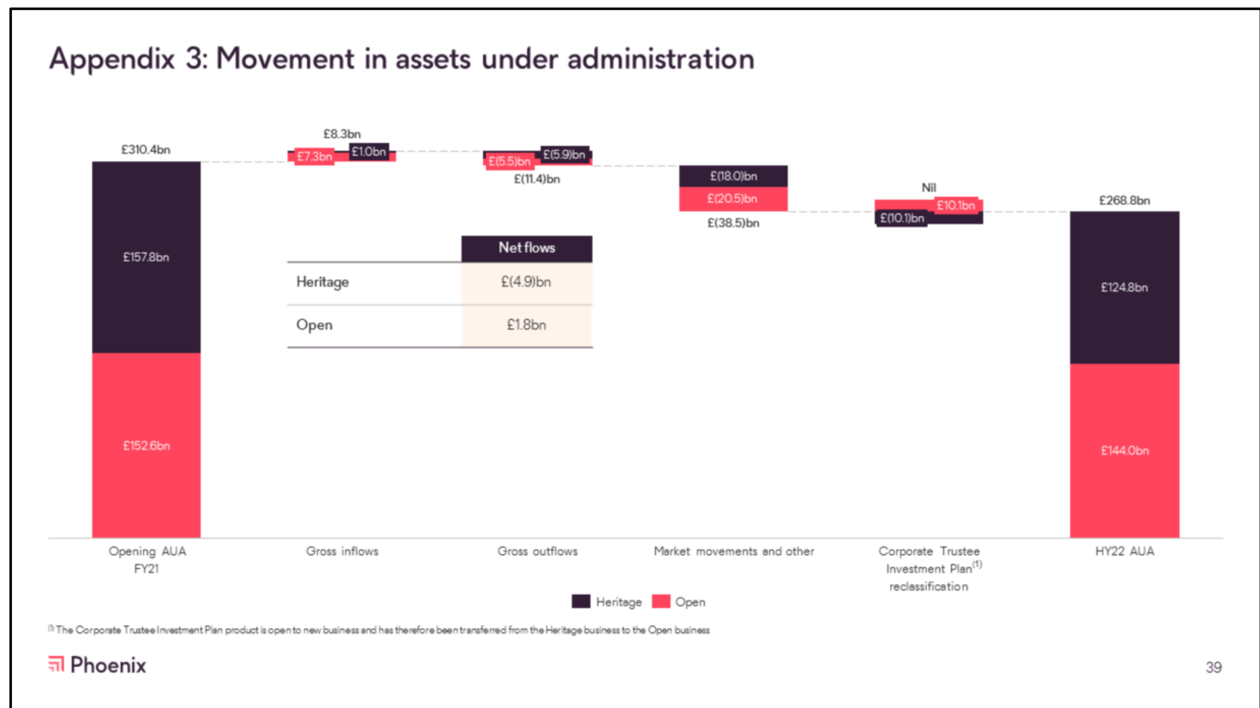
Appendix 3: Movement in assets under administration



	Net flows
Heritage	£(4.9)bn
Open	£1.8bn

(1) The Corporate Trustee Investment Plan product is open to new business and has therefore been transferred from the Heritage business to the Open business

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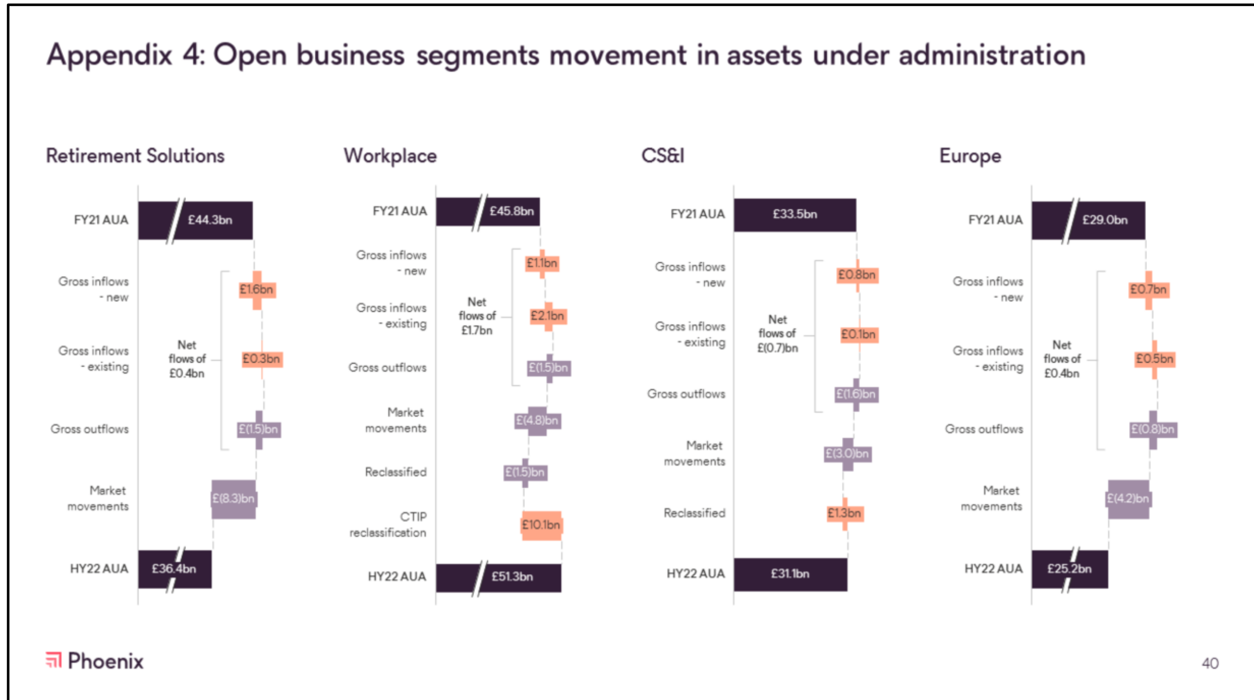

Appendix 4: Open business segments movement in assets under administration
Retirement Solutions
FY21 AUA
£44.3bn
Gross inflows - new
£1.6bn
Gross inflows - existing
£0.3bn
Net flows of £0.4bn
Gross outflows
£(1.5)bn
Market movements
£(8.3)bn
HY22 AUA
£36.4bn
Workplace
FY21 AUA
£45.8bn
Gross inflows - new
£1.1bn
Gross inflows - existing
£2.1bn
Net flows of £1.7bn
Gross outflows
£(1.5)bn
Market movements
£(4.8)bn
Reclassified
£(1.5)bn
CTIP reclassification
£10.1bn
HY22 AUA
£51.3bn
CS&I
FY21 AUA
£33.5bn
Gross inflows - new
£0.8bn
Gross inflows - existing
£0.1bn
Net flows of £(0.7)bn
Gross outflows
£(1.6)bn
Market movements
£(3.0)bn
Reclassified
£1.3bn
HY22 AUA
£31.1bn
Europe
FY21 AUA
£29.0bn
Gross inflows - new
£0.7bn
Gross inflows - existing
£0.5bn
Net flows of £0.4bn
Gross outflows
£(0.8)bn
Market movements
£(4.2)bn
HY22 AUA
£25.2bn
Phoenix
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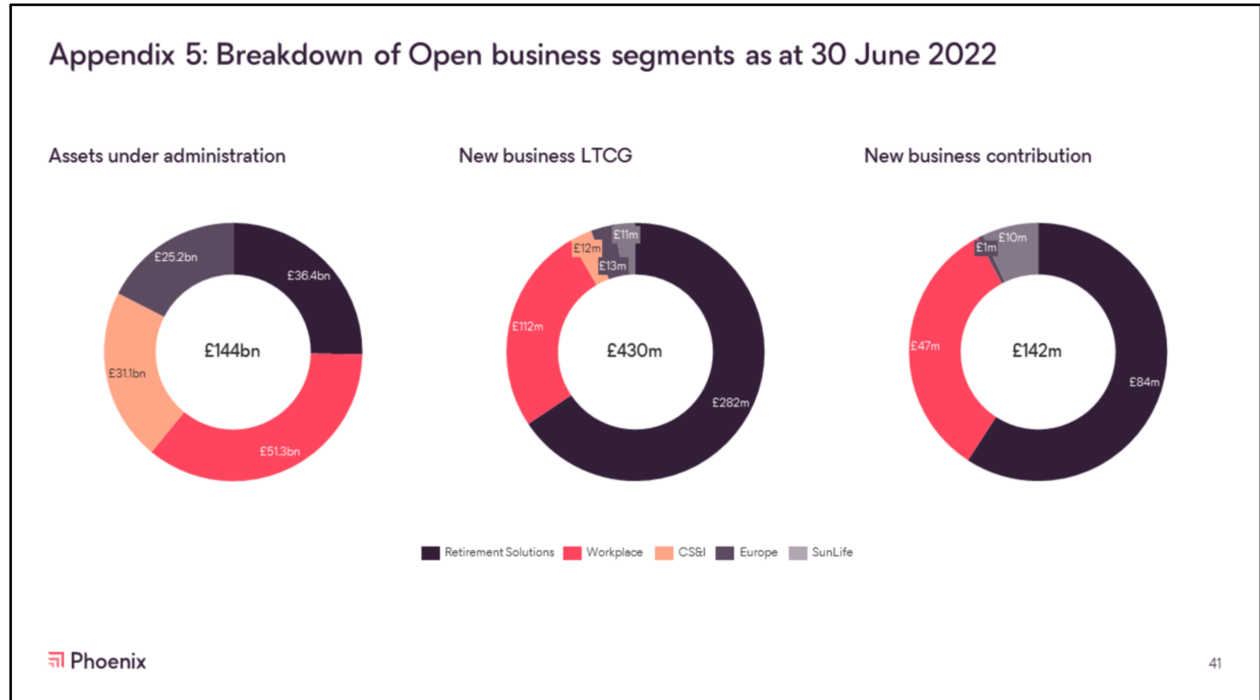

Appendix 5: Breakdown of Open business segments as at 30 June 2022
Assets under administration
£144bn
£36.4bn
£51.3bn
£31.1bn
£25.2bn
New business LTCG
£430m
£282m
£112m
£12m
£13m
£11m
New business contribution
£142m
£84m
£47m
£1m
£10m
Retirement Solutions
Workplace
CS&I
Europe
SunLife
Phoenix
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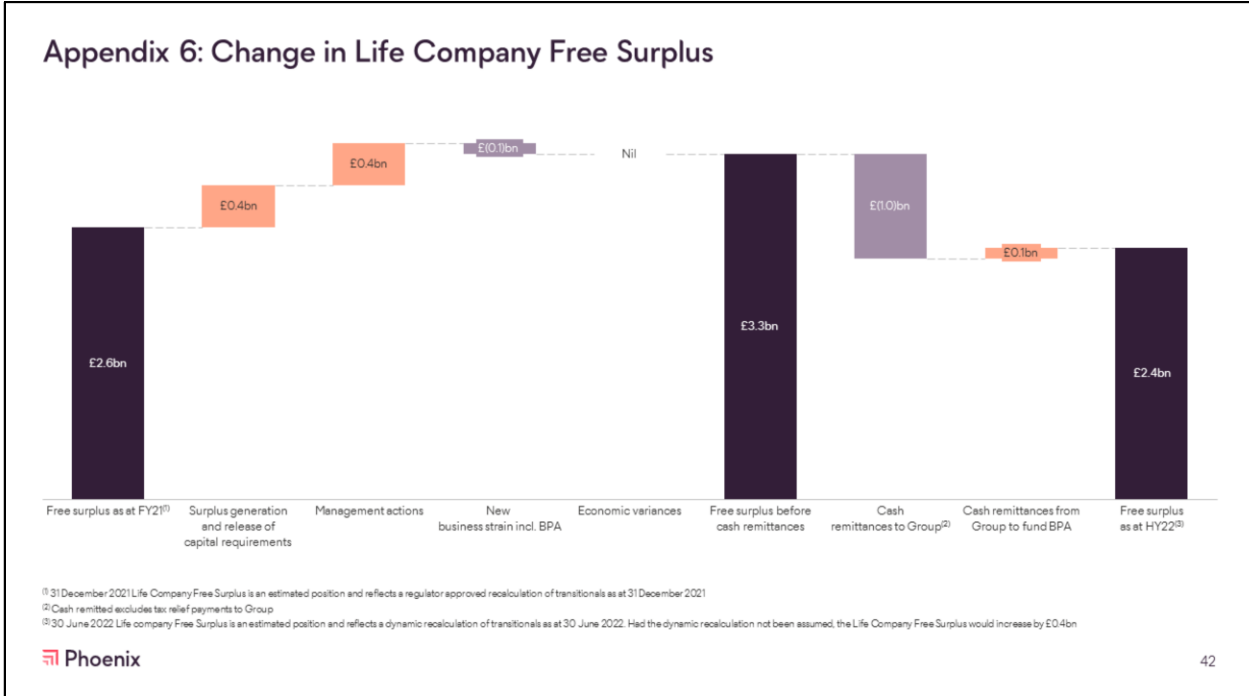
Appendix 6: Change in Life Company Free Surplus
£2.6bn
£0.4bn
£0.4bn
£(0.1)bn
Nil
£3.3bn
£(1.0)bn
£0.1bn
£2.4bn
Free surplus as at FY21[1]
Surplus generation and release of capital requirements
Management actions
New business strain incl. BPA
Economic variances
Free surplus before cash remittances
Cash remittances to Group[2]
Cash remittances from Group to fund BPA
Free surplus as at HY22[3]
[1] 31 December 2021 Life Company Free Surplus is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2021
[2] Cash remitted excludes tax relief payments to Group
[3] 30 June 2022 Life company Free Surplus is an estimated position and reflects a dynamic recalculation of transitionals as at 30 June 2022. Had the dynamic recalculation not been assumed, the Life Company Free Surplus would increase by £0.4bn
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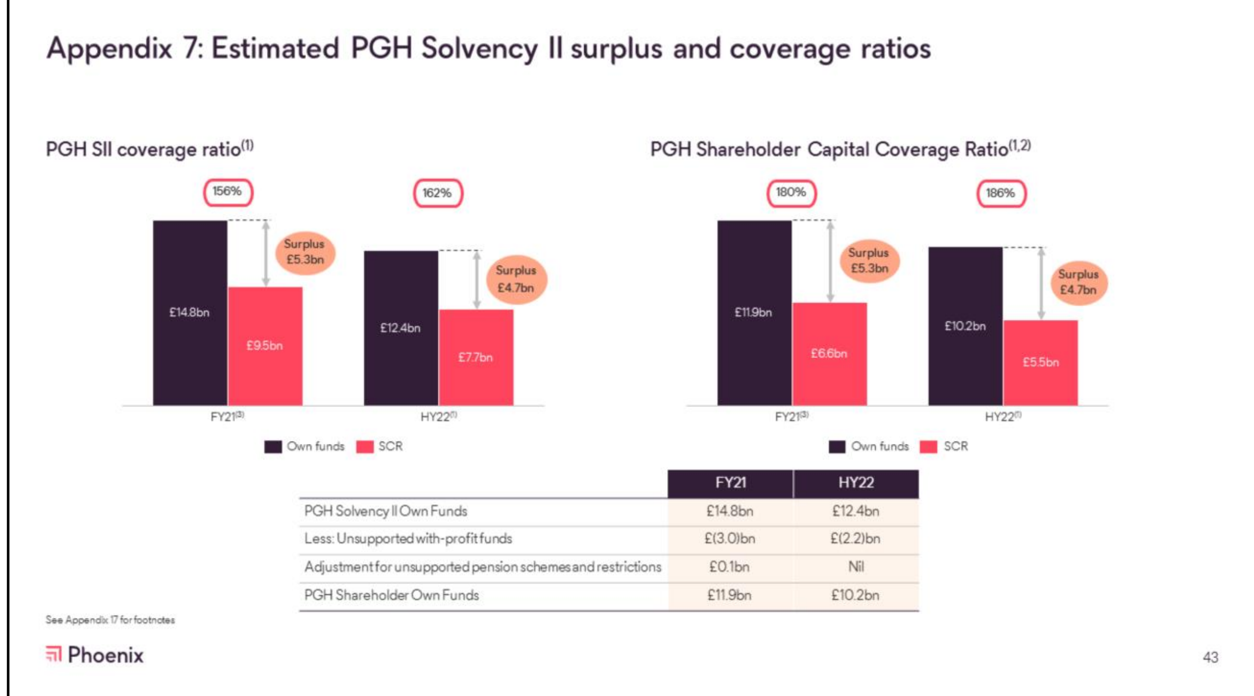
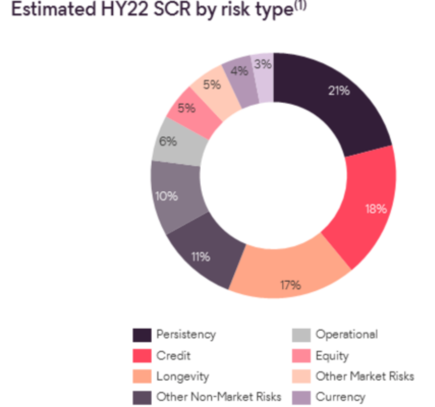


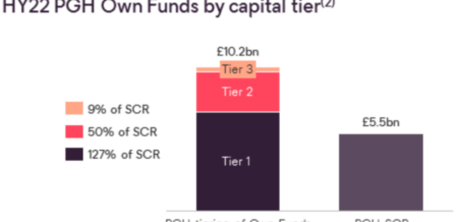
	FY21	HY22
PGH Solvency II Own Funds	£14.8bn	£12.4bn
Less: Unsupported with-profit funds	£(3.0)bn	£(2.2)bn
Adjustment for unsupported pension schemes and restrictions	£0.1bn	Nil
PGH Shareholder Own Funds	£11.9bn	£10.2bn

Appendix 8: Additional Solvency II disclosures

Estimated HY22 SCR by risk type[1]



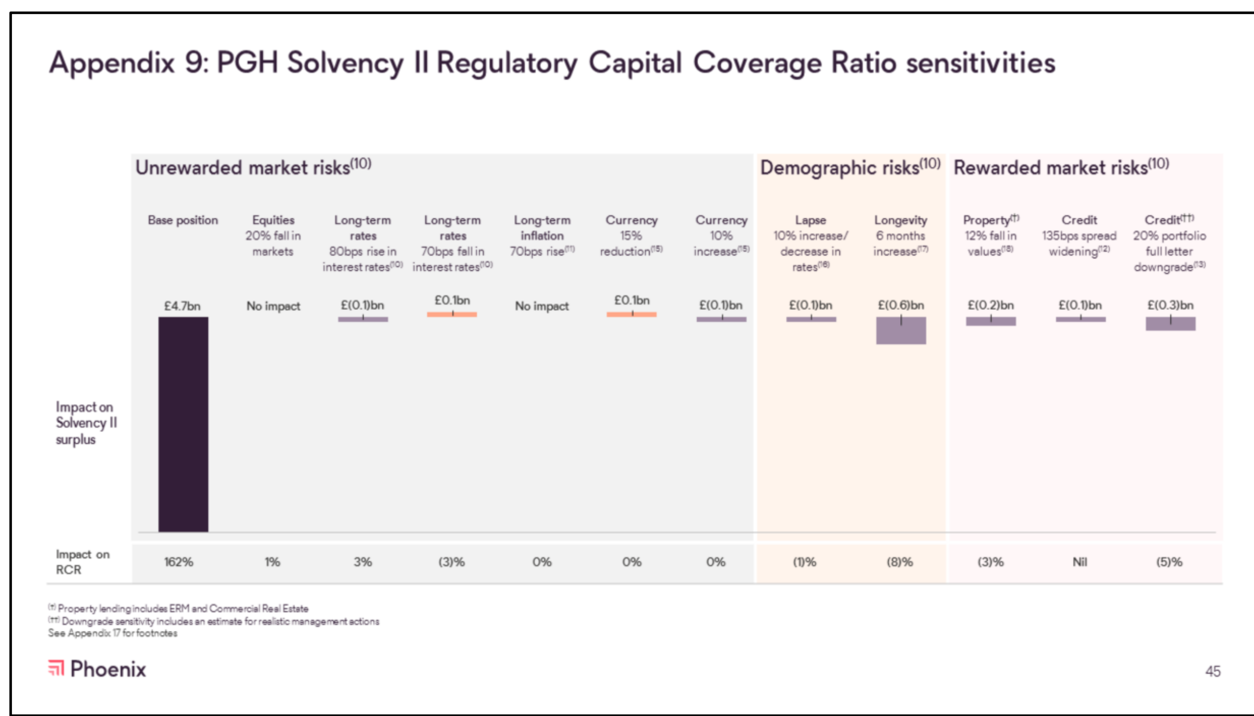
HY22 PGH Own Funds by capital tier[2]



Share of SII Own Funds by capital tier

	£bn	%
Tier 1[3]	£7.0bn	68%
Tier 2	£2.8bn	27%
Tier 3	£0.4bn	5%
Total	**£10.2bn**	**100%**

[1] Split of SCR pre diversification benefits and on a Shareholder Capital basis
[2] The Solvency II capital position is an estimated position and reflects is an estimated position and reflects a dynamic recalculation of transitionals as at 30 June 2022 and recognition of the foreseeable Interim 2022 shareholder dividend of £248m
[3] Tier 1 includes £1.1bn of Restricted Tier 1 capital at fair value



Appendix 9: PGH Solvency II Regulatory Capital Coverage Ratio sensitivities
Unrewarded market risks(10)
Demographic risks(10)
Rewarded market risks(10)
Base position
Equities 20% fall in markets
Long-term rates 80bps rise in interest rates(10)
Long-term rates 70bps fall in interest rates(10)
Long-term inflation 70bps rise(11)
Currency 15% reduction(15)
Currency 10% increase(15)
Lapse 10% increase/ decrease in rates(16)
Longevity 6 months increase(17)
Property(†) 12% fall in values(18)
Credit 135bps spread widening(12)
Credit(††) 20% portfolio full letter downgrade(13)
£4.7bn
No impact
£(0.1)bn
£0.1bn
No impact
£0.1bn
£(0.1)bn
£(0.1)bn
£(0.6)bn
£(0.2)bn
£(0.1)bn
£(0.3)bn
Impact on Solvency II surplus
Impact on RCR
162%
1%
3%
(3)%
0%
0%
0%
(1)%
(8)%
(3)%
Nil
(5)%
(†) Property lending includes ERM and Commercial Real Estate
(††) Downgrade sensitivity includes an estimate for realistic management actions
See Appendix 17 for footnotes
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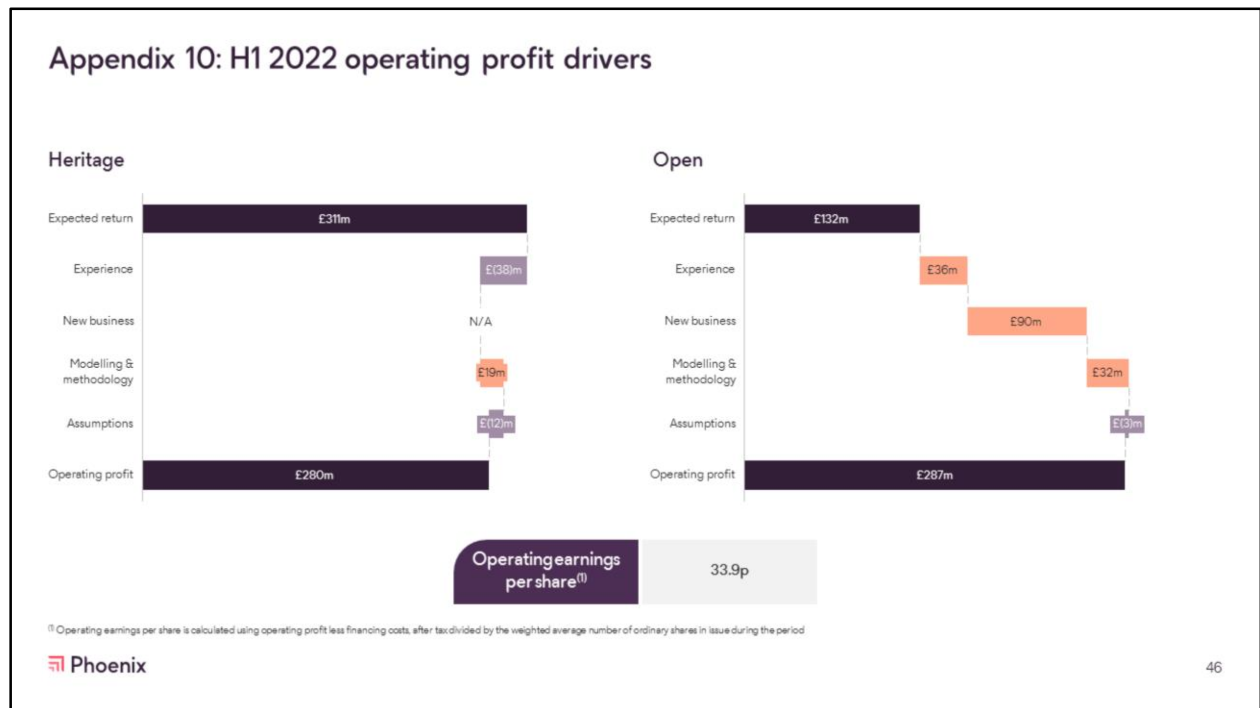

Appendix 10: H1 2022 operating profit drivers
Heritage
Expected return
£311m
Experience
£(38)m
New business
N/A
Modelling & methodology
£19m
Assumptions
£(12)m
Operating profit
£280m
Open
Expected return
£132m
Experience
£36m
New business
£90m
Modelling & methodology
£32m
Assumptions
£(3)m
Operating profit
£287m
Operating earnings per share[1]
33.9p
[1] Operating earnings per share is calculated using 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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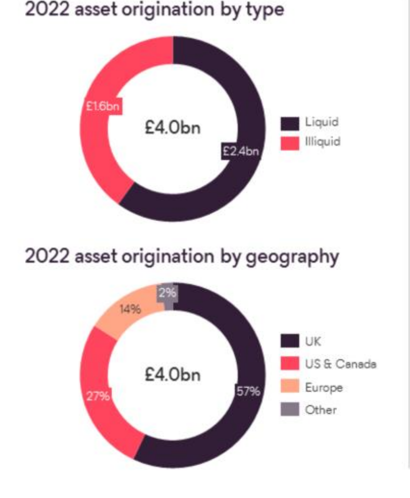
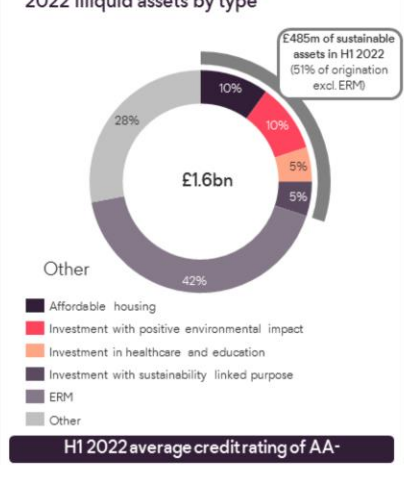
Appendix 11: Asset origination as at 30 June 2022





H1 2022 average credit rating of AA-

Key messages

- Utilised liquid credit spread widening to originate more liquid credit at strong yields in the first half and preserve illiquid capacity for when spreads improve
- Selective investments in the illiquid market enabled us to achieve a strong c.60bps illiquidity premium in H1 2022
- Actively seeking to diversify credit portfolio with US & Canadian credit, with c.£1bn of origination in H1
- Continue to invest in a range of sustainable assets, accounting for >50% of our illiquid origination excl. ERM in H1

Appendix 12: Diversification of illiquid asset portfolio as at 30 June 2022

Equity Release Mortgages
£4.1bn with AA rating

- Broad regional spread with average LTV of 31%
- Secured on property assets with average time to redemption 11 years

Private Corporate Credit
£1.6bn with A- rating

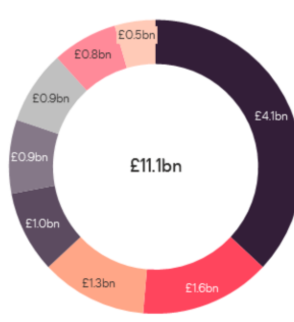
- Diversified portfolio with c.35% of exposure secured on variety of assets
- Loans across 53 different counterparties

Commercial Real Estate
£1.3bn with BBB rating

- Structured with robust covenant protection, a combination of loan-to-value and interest coverage ratio
- c.95% of portfolio LTV ≤60%

Infrastructure – corporate debt
£1.0bn with BBB rating

- Secured on cash flows from long-term contracts with highly rated counterparties
- c.14% of portfolio backed by UK Government (directly or indirectly)



Infrastructure – project finance debt
£0.9bn with BBB rating

- Secured on cash flows from long-term contracts with highly rated counterparties
- c.63% of portfolio backed by UK Government (directly or indirectly)

Housing Associations
£0.9bn with A rating

- 100% of portfolio is secured on assets
- Average loan size of £16m across 26 different counterparties

Local Authority Loans
£0.8bn with A+ rating

- Unsecured but with implicit Government support
- Loans across 36 different counterparties

Export Credit Agencies & Supranationals
£0.5bn with AA rating

- 100% of portfolio is Government-backed
- Loans across 7 different counterparties

Appendix 13: Credit quality by sector for shareholder debt portfolio

Average credit rating by sector (HY22 vs FY21)

Sector	HY22	HY22	AA	A	BBB	Δ vs FY21
ERM	£4.1bn	12%	HY22, FY21			↔
Consumer, cyclical	£1.2bn	4%			HY22, FY21	↔
Industrials	£1.2bn	4%		HY22	FY21	↑
Real Estate	£4.0bn	12%		HY22, FY21		↔
Consumer, non-cyclical	£2.1bn	6%		HY22, FY21		↔
Tech and Telecoms	£1.9bn	5%		HY22, FY21		↔
Utilities	£2.3bn	7%			HY22, FY21	↔
Insurance	£0.8bn	2%		HY22, FY21		↔
Oil and gas	£0.6bn	2%		HY22, FY21		↔
Infrastructure	£1.9bn	6%			HY22, FY21	↔
Gilts/Sovereign/Supra/Sub-sovereign	£8.4bn	25%	HY22, FY21			↔
Banks	£4.0bn	12%		HY22, FY21		↔
Financial Services	£0.8bn	2%		HY22, FY21		↔
Other	£0.5bn	1%		HY22, FY21		↔
Total	**£33.8bn**	**100%**				

● HY22 ● FY21

Appendix 14: Integration synergies

	ReAssure			
	In H1 2022	Cumulative	Revised target	% of revised target
Capital synergies (net of costs)	£5m	£693m	£600m	116%
Cost synergies[21] (per annum)	£15m	£42m	£50m	85%
Integration costs[22] (net of tax)	£11m	£39m	£50m	78%
Total value[23]	**£148m**	**£1,078m**	**£1,050m**	**103%**

See Appendix 17 for footnotes

Appendix 15: ESG ratings and collaborations

ESG ratings

Ratings agency	FY21	HY22	Change
MSCI	A	A	↔
Sustainalytics	20.0 / low risk	19.8 / low risk	↑
CDP	B	B	↔
Dow Jones Sustainability Index	69th percentile	69th percentile	↔
FTSE4Good	76th percentile	75th percentile	↓

Collaborations and Commitments

Climate Action 100+

Living Wage Foundation

IIGCC The Institutional Investors Group on Climate Change

PRI Principles for Responsible Investment

PCAF Partnership for Carbon Accounting Financials

Make My Money Matter

The Net-Zero Asset Owner Alliance

TNFD Taskforce on Nature-related Financial Disclosures

TCFD Task Force on Climate-related Financial Disclosures

Science Based Targets

Appendix 16: 2022 sustainability targets

Investing in a sustainable future

Theme	2022 targets
Integrating sustainability considerations into our investment decision making process	Data gathering framework and tracking established for listed equity and credit where we exercise influence and control
Investing responsibly	• Alignment to the UK Stewardship Code in readiness for certification in 2023 • 60%[1] origination of Sustainable Investments (illiquid assets within our shareholder portfolio excl ERM) • £250m invested into Climate Solutions for the policyholder assets
Tracking our decarbonisation goals	Develop and submit for validation emission reduction targets in line with the SBTi financial sector guidance
Engaging to drive system change	Working with partners to increase ambition, transparency and tackle barriers to net zero investment

Engaging people in better financial futures

Theme	2022 targets
Empowering better financial decision making	• Launch financial inclusion strategy, focused on a specific underserved customer group, providing targeted support to empower better financial decisions • 1 million Phoenix Group customers are directly offered the chance to review our Digital Literacy materials and/or initiatives in 2022
Enhancing our fund and product offering	Move £15bn AUM and 1.5m customers invested in the Active Plus and Passive Plus workplace default solutions to our new sustainability strategy
Creating a national conversation	• Launch a programme of public engagement on longer lives • Launch Longer Lives Index
Advocating for change	Launch guidance gap campaign

Building a leading responsible business

Theme	2022 targets
Investing in our people and culture	7.8 out of 10 average colleague engagement score
Reducing the environmental impact of our operations	20% reduction (2022 versus 2021 target) in Scope 1 and 2 emission intensity from occupied premises per full time employee
Building a sustainable supply chain	75% of key suppliers commit to SBTi or Race to Zero
Supporting our communities	40% of colleagues actively involved in supporting community engagement activities (Group-wide)

[1] Subject to regulatory and market conditions

Appendix 17: Footnotes

1. 30 June 2022 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies and the foreseeable interim dividend of £248m. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.4bn and 10% respectively
2. The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes
3. 31 December 2021 Solvency II capital position is an estimated position and reflects a regulator approved recalculation of transitionals as at 31 December 2021
4. Based on shareholder Own Funds on Sun Life of Canada UK's Standard Formula basis as at 31 December 2021, net of adjustment for expected items as at completion
5. Dividends rebased to take into account the bonus element of rights issues
6. Leverage ratio is pro forma for a £450m debt repayment made in July and allowing for currency hedges over foreign currency denominated debt
7. FCF definition: £4.0bn cash generation expected over 2022-2024, less mandatory outgoings over the same period. Net cash divided over three years to provide annualised position
8. £1.1bn of operating costs and interest includes: Group operating expenses of £247m, £47m in relation to the Group's pension schemes; integration costs of £87m net of tax, split £69m on Standard Life integration and £18m on Reassure integration; and £692m interest costs on Group's listed debt and senior debt to be incurred
9. £1.5bn dividend cost based on annual dividend cost of £0.5bn per annum
10. Scenario assumes stress occurs on 1 July 2022 and that there is no market recovery
11. 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
12. Stress reflects a structural change in long-term inflation with an increase of 70bps across the curve

Appendix 17: Footnotes cont.

13. 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
14. 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
15. New business strain comprises BPA £(62)m (pre capital management policy), £(9)m across Workplace and CS&I, Europe £(14)m, with an offsetting £6m in SunLife
16. A 15% weakening/10% strengthening of GBP exchange rates against other currencies
17. Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups
18. Applied to the annuity portfolio
19. Property stress represents an overall average fall in property values of 12%
20. All sensitivities as at 30 June 2022, sourced from company disclosure and scaled for comparability where necessary
21. ReAssure cost synergy targets and delivered are shown net of costs
22. Integration costs incurred to date excludes amounts provided for and reflects actual costs incurred to date
23. Synergy value includes capital synergies plus capitalised cost synergies (over 10 years), plus one-off costs, less integration costs, all of which are net of tax

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