PHOENIX GROUP

Phoenix Group Holdings plc: Trading update 7 May 2020

PHOENIX GROUP'S RESILIENT CAPITAL POSITION SUPPORTS PAYMENT OF 2019 FINAL DIVIDEND

Phoenix Group Holdings plc ("Phoenix" or "the Group") provides a positive trading update ahead of its AGM on 15 May 2020, outlines its ongoing response to the COVID-19 crisis and reaffirms the Board's decision to recommend payment of the proposed 2019 final dividend.

Key messages

- Phoenix's priorities throughout this challenging period have been to support and protect customers, colleagues and the communities in which we operate, whilst protecting the long-term value of the Group.

- Phoenix is committed to playing its full part in supporting the real economy throughout the disruption arising from COVID-19.

- Strong business continuity planning has enabled the Group to protect colleagues through mobilisation of homeworking and ensured the business continues to deliver strong service to customers.

- We have not accessed any government support schemes and our employees are all receiving full pay with none furloughed.

- Phoenix's focus on resilience is reflected in an estimated Solvency II surplus of £4.0 billion[1] as at 24 April 2020 (£3.1 billion[2] as at 31 December 2019) with an estimated shareholder capital coverage ratio[3] of 172% as at 24 April 2020 (161% as at 31 December 2019).

- Despite the challenging environment, we continue to target 2020 cash generation of £800 - £900 million.

- The acquisition of ReAssure Group plc is on track to complete in July 2020, subject to regulatory approval.

- The Board continues to recommend payment of the proposed 2019 final dividend of 23.4 pence per share, subject to approval by shareholders at the AGM on 15 May 2020.

Andy Briggs, CEO of Phoenix Group commented:

"The resilience of both Phoenix's operations and its balance sheet has been demonstrated during this period of significant market volatility. In these extraordinary times, Phoenix is taking significant steps to support and protect its customers, colleagues and the communities where we operate. We remain focused on delivering cash, resilience and growth and are on track to complete the acquisition of ReAssure in July. I am extremely grateful to my colleagues for the dedication and spirit they have shown throughout this challenging time."

Nicholas Lyons, Chairman of Phoenix Group commented:

"Phoenix recognises the importance of its role in society and we are passionate about being a good custodian of our customers' savings. The Board also recognises that dividends are an important income stream for retail savers and the funds they invest in. The decision to recommend payment of the 2019 final dividend has been taken following extensive work, including assessing the impact of very severe scenarios on our solvency position, and only after ensuring we have sufficient capital to protect our customers' interests."

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Key highlights

PROTECTING OUR CUSTOMERS, COLLEAGUES AND COMMUNITIES

In these extraordinary times, Phoenix is taking significant steps to support and protect its customers, colleagues, and our communities.

Customers

- Delivering strong customer service: despite the challenge of home working, we have maintained a high standard of service and customer satisfaction remains above 90%.
- Promoting digital access: c.1.2 million customers contacted to encourage increased use of digital access resulting in 70% more log-ins in March 2020 compared to a typical month in 2019.
- Supporting customers: initiatives include switching cheque payments to bank transfer for annuitants, making the life insurance claims process as smooth as possible and removing the moratorium period for newer customers of SunLife.
- Looking after NHS workers: priority contact service established for frontline workers.

Colleagues

- Enabling 99% of employees to work from home within 10 days of the lockdown being announced, supported by the deployment of over 4,500 individual pieces of IT equipment.
- None of our 4,400 colleagues have been furloughed and staff remain on full pay.
- Initiatives put in place to protect the very small number of employees classified as key workers.
- Paid emergency leave provided to colleagues with caring responsibilities.
- The Remuneration Committee recognises the impact of COVID-19 on all stakeholders and will consider this when determining executive remuneration in 2020.

Communities

- The Group has made a £1 million charitable donation split between Age UK and charities supporting the local communities where we operate across the UK and Europe.
- Phoenix has established a new collective giving scheme where we will match donations of all colleagues, including Directors, up to £1 million.
- Ongoing investment in socially responsible community assets to support the real economy in 2020 have included £70 million in lending to Local Authorities, £75 million to Housing Associations, and £30 million to a renewable energy project.

DELIVERING CASH, RESILIENCE AND GROWTH

Resilient Solvency II balance sheet with increased surplus

- Solvency II surplus increased by £0.9 billion from £3.1 billion[2] as at 31 December 2019 to £4.0 billion[1] as at 24 April 2020.
- Solvency balance sheet has moved broadly in line with published sensitivities with £(0.2) billion negative economic variances in the period comprised primarily of strains from falls in interest rates and widening of credit spreads partially offset by gains from falls in equities.
- Shareholder capital coverage ratio[3] of 172% as at 24 April 2020 (161% as at 31 December 2019) remains well within the Group's target range of 140%-180%.
- £1.1 billion debt raised in the period to fund the proposed acquisition of ReAssure Group plc comprising a USD750 million Restricted Tier 1 Note in January and a £500 million Tier 2 Note in April.

High quality credit portfolio

- 98% of £20 billion shareholder debt portfolio is investment grade and only 15% is BBB.
- Limited exposure to sectors most at risk with only 2% of bond portfolio in airlines, hotel, leisure and traditional retail.
- Limited downgrade experience to date with only £0.4 billion (3%) of bonds in the Matching Adjustment portfolios subject to a downgrade which changed the letter rating and £10 million of bonds (0.1%) being downgraded to sub-investment grade. There have been no defaults.

Confidence in cash and liquidity

- 2020 cash generation target remains unchanged at £800 - £900 million.
- Estimated life company free surplus of £1.0 billion as at 31 March 2020 (£1.2 billion as at 31 December 2019).
- Holdco cash of £739 million[4] as at 31 March 2020 (£275 million as at 31 December 2019).

Growth through M&A, BPA and Open business

- Acquisition of ReAssure Group plc on track to complete in July 2020, subject to regulatory approval.
- Change in control application submitted to the regulatory authorities on 30 April 2020.
- Fund raising for the acquisition completed in the period.
- Encouraging Q1 2020 new business with estimated incremental long-term cash generation of £100 million comprising £58 million from UK Open and Europe businesses (Q1 2019: £48 million) and £42 million from bulk purchase annuities (Q1 2019: nil).

2019 FINAL DIVIDEND

- The protection of customers across the 10 million life and pension policies Phoenix has in-force has always been our priority.
- To deliver this protection and maintain safety and soundness, Phoenix has consistently adopted a prudent approach to risk management aimed at bringing resilience to its solvency position.
- As a consequence, notwithstanding the unprecedented market volatility that COVID-19 continues to bring, the Group’s solvency position remains robust, and well above its target level and regulatory thresholds.
- In considering the 2019 final dividend, the Board has paid close attention to regulatory guidance urging insurers to adopt restraint in regard to the payment of dividends to ensure policyholders are protected.
- This has included an assessment of the impact that a range of scenarios, including very severe ones, could potentially have on both the solvency and liquidity positions of the Group on a combined basis as if the acquisition of ReAssure Group plc had completed.
- After careful consideration, the Board has concluded that the proposed 2019 final dividend of 23.4 pence per share is prudent and consistent with Phoenix’s risk appetite.
- The Board also recognises that dividends are an important income stream both for retail shareholders, and the end consumer who invests in institutional income funds. They are typically ordinary savers and pensioners who need this income stream at this time more than ever, which in turn supports the broader economy. The majority of our shareholders are income funds and retail investors.
- Therefore the Board continues to support payment of the proposed 2019 final dividend which remains subject to approval by shareholders at the AGM on 15 May 2020.

Enquiries

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Appendices

Appendix 1: Estimated PGH Shareholder Solvency II Surplus

£bn	24-Apr-20[1]	31-Dec-19[2]
Own Funds	9.5	8.3
SCR	5.5	5.2
Surplus	4.0	3.1
Shareholder Capital Coverage Ratio[4]	172%	161%

Appendix 2: Estimated PGH Regulatory Solvency II Surplus

£bn	24-Apr-20[1]	31-Dec-19[2]
Own Funds	12.6	10.8
SCR	8.6	7.7
Surplus	4.0	3.1
Regulatory Capital Coverage Ratio	146%	141%

Appendix 3: Change in estimated PGH Solvency II Surplus

	£bn	SCCR
PGH Solvency II Surplus as at 31 December 2019[2]	**3.1**	**161%**
Surplus emerging and release of capital requirements	0.1	2%
Debt raise	1.1	19%
Financing and corporate costs	(0.1)	(3)%
Economic variances and other	(0.2)	(7)%
PGH Solvency II Surplus as at 24 April 2020[1]	**4.0**	**172%**

Appendix 4: Solvency II sensitivities[5]

	Solvency II surplus £bn	SCCR %
Solvency II base	4.0	172
Equities: 20% fall in markets	4.1	175
Property: 12% fall in values[6]	3.8	167
Rates: 73bps rise in interest rates[7]	4.1	180
Rates: 88bps fall in interest rates[7]	3.8	163
Credit spreads: 120bps widening with no allowance for downgrades[8]	3.8	173
Credit downgrade: immediate full letter downgrade on 20% of portfolio[9]	3.8	166

Appendix 5: Asset mix of total shareholder, non-profit & supported with-profits

£m	31-Mar-20	31-Dec-19
Cash deposits	5,107	5,495
Debt securities		
Debt securities - gilts	4,453	4,244
Debt securities - bonds	15,744	15,626
Total debt securities	**20,197**	**19,870**
Equity securities	144	193
Property investments	121	129
Other investments[10]	4,863	3,894
Total	**30,432**	**29,581**

Appendix 6: Sector analysis of bond portfolio, 31 March 2020

£m	AAA	AA	A	BBB	BB & below and unrated	Total	%
Industrials[11]	-	137	126	470	16	**749**	**4%**
Consumer, Cyclical[12]	-	185	166	158	29	**538**	**3%**
Tech and Telecoms	42	119	162	418	37	**778**	**4%**
Consumer, Non-cyclical	62	168	459	239	46	**974**	**5%**
Banks	524	604	1,439	388	33	**2,988**	**15%**
Financial Services	146	396	609	110	35	**1,296**	**7%**
Utilities	27	-	1,124	606	71	**1,828**	**9%**
Gilts /Sovereign/Supra/ sub-sov	1,007	5,259	186	2	26	**6,480**	**32%**
Real Estate[13]	48	107	1,737	244	57	**2,193**	**11%**
Insurance	-	290	141	45	21	**497**	**2%**
Oil and Gas	-	110	109	67	16	**302**	**1%**
Financing Loans	-	441	48	-	-	**489**	**2%**
Infrastructure	-	-	57	296	-	**353**	**2%**
Other[14]	445	99	117	55	16	**732**	**3%**
Total	**2,301**	**7,915**	**6,480**	**3,098**	**403**	**20,197**	**100%**
Total %	**12%**	**39%**	**32%**	**15%**	**2%**	**100%**	

Notes

1. The Solvency II capital position as at 24 April 2020 has been based on the estimated 31 March 2020 quarterly results that include the impact of a dynamic recalculation of transitionals for all UK life companies, adjusted to reflect the anticipated impact of market movements and known management actions in the period to 24 April 2020. It also includes the proceeds of the Tier 2 bond issued on 23 April 2020 and settled on 28 April 2020 and is stated after recognition of the £169 million 2019 final dividend.
2. The 31 December 2019 Solvency II capital position reflects a regulator approved recalculation of transitionals as at this balance sheet date and is stated after recognition of the £169 million 2019 final dividend.
3. The Shareholder Capital Coverage Ratio ("SCCR") excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and the PGL and Pearl Pension Schemes.
4. The 31 March 2020 Holdco cash figure excludes the proceeds of the £500 million Tier 2 bond issued on 23 April 2020. Both the £500 million acquisition facility and the £1.25 billion revolving credit facility remain undrawn.
5. Sensitivity assumes stress occurs on Day 1 and that there is no market recovery.
6. Property stress represents an overall average fall in property values of 12%.
7. Assumes the impact of a dynamic recalculation of transitionals 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.
8. Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
9. 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 no 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.
10. 'Other investments' includes equity release mortgages of £3,012 million, commercial real estate loans of £392 million, policy loans of £2 million, other loans of £43 million, net derivative assets of £1,390 million and other investments of £24 million.
11. Includes £331 million exposure to airports and £47 million to leisure.
12. Includes £237 million exposure to traditional retail, £30 million to airlines, £17 million to leisure and £214 million to automobiles.
13. Includes £22 million exposure to shopping malls, £57 million to shopping centres and £21 million to leisure.
14. Includes Basic Materials, Structure Finance, Diversified, Investment Companies and CDOs.

Disclaimer

This announcement in relation to Phoenix Group Holdings plc and its subsidiaries (the ‘Group’) contains, and we 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 and expectations relating to future financial conditions, 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.

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As a result, the Group’s actual future financial condition, performance and results may differ material from the plans, goals 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 should be construed as a profit forecast or estimate.