PHOENIX GROUP

Phoenix Group Holdings plc: Trading update

3 December 2020

Capital Markets Day, strong trading update exceeding 2020 cash generation target, and setting net-zero carbon targets

Phoenix Group ("Phoenix"), the UK's largest long-term savings and retirement business, is today hosting a Capital Markets Day for investors and analysts, which will include presentations by Phoenix's management team.

The purpose of the event is to provide greater insight into Phoenix's strategy and financial framework. The presentations will also include a series of deep dives into how its businesses are being managed to deliver sustainable cash, resilience and growth for investors.

Alongside this, Phoenix today announces a strong trading update with 2020 cash generation ahead of target.

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

"Phoenix has continued to perform strongly with full year cash generation of £1.7 billion now complete, exceeding the top end of our target range. Our balance sheet remains resilient, underpinned by our high-quality portfolio of assets and unique approach to risk management, and our shareholder capital coverage ratio of 159% remains robust.

As we execute successfully against our strategy, I am confident that we will continue to deliver cash, resilience and growth, and therefore sustainable cash generation for investors.

We also recognise that Phoenix has an important role to play in society and today we are announcing our commitment for our operations to become net-zero carbon by 2025 and for our investment portfolio to do so by 2050. Sustainability is at the core of our purpose and reducing our environmental impact will be integral to delivering long-term value for all of our stakeholders."

Financial Highlights – Phoenix continues to deliver cash, resilience and growth

Strong cash generation

- £1,713 million of cash generation[1] in 2020 (2019: £707 million) exceeding the upper end of the 2020 cash generation target range of £1.5 billion - £1.6 billion.

Resilient Solvency II balance sheet with increased surplus

- Solvency II surplus increased by £0.6 billion to £5.0 billion[2] as at 30 September 2020 from £4.4 billion[3] at 30 June 2020 on a pro-forma basis, driven in part by the successful delivery of management actions.
- Shareholder Capital Coverage Ratio[4] of 159% as at 30 September 2020 (150% as at 30 June 2020 on a pro-forma basis), at the midpoint of the Group's target range of 140% - 180%.

Robust, high-quality credit portfolio

- 98% of £35 billion shareholder debt portfolio is investment grade; 21% is rated as BBB with only 2% of the portfolio rated as BBB- as at 30 September 2020.
- Limited downgrade experience to date with only £1.6 billion (4.5%) of bonds in the £35 billion shareholder debt portfolio subject to a downgrade which changed the letter rating, and £148 million of bonds (0.4%) being downgraded to sub-investment grade.
- 99.3% of all contractual cashflows paid on the £9.3 billion illiquid asset portfolio.

Growth through Open business

- £472 million incremental long-term cash generation from new business in the 9 months ended 30 September 2020 (FY 2019: £483 million[5]) including:
  - £300 million from BPA (FY 2019: £235 million);
  - £94 million from Workplace (FY 2019: £155 million); and
  - £42 million from Customer Savings and Investments (includes Wrap and Retail business) (FY 2019: £59 million).

Further financial disclosures are provided in the appendix to this announcement and all financial results are available in the financial supplement which can be accessed through the following link:

www.thephoenixgroup.com/investor-relations/capital-markets-day-2020

Phoenix has committed to becoming net-zero carbon by 2050

Phoenix recognises its responsibility in driving forward its commitment to sustainability, and in particular the importance of reducing greenhouse gas (“GHG”) emissions and accelerating the transition to a low carbon economy. As such, today we are setting net-zero carbon targets in two phases:

- Phase 1: Operations: we are committing to ensuring the Scope 1 and 2 emissions of our occupied premises and the Scope 3 emissions from business travel are net-zero carbon by 2025.
- Phase 2: Investment portfolio: setting a net-zero by 2050 target for our investment portfolio.

We will take into account the best available scientific knowledge in this process. Therefore, in relation to our operations, we will set and pursue a 1.5°C aligned science-based emissions reduction target, with any remaining hard-to-decarbonise emissions compensated using certified GHG removal projects.

In relation to our investment portfolios, where we have the ability to influence the investment strategy or investment solution, we will aim to reduce the emission intensity to net-zero GHG emissions by 2050. This is also consistent with the objective of limiting the temperature rise to no more than 1.5°C above pre-industrial temperatures and is in line with the Paris Agreement and the commitment of the UK Government.

We will do this by:

- Increasing our investment in assets that support the transition to a low carbon economy; and
- Using our position as a significant asset owner to engage with investee companies and promote alignment to the Paris Agreement. We will reduce or ultimately eliminate our exposure from companies that show little progress following sustained engagement.

Presentation

We will be hosting our live virtual Capital Markets Day for analysts and investors today at 2.00 pm (GMT).

A link to the live webcast of the presentation, with the facility to raise questions, and a copy of the presentation will be available at www.thephoenixgroup.com

You can register for the live webcast at the link below:

https://phoenixgroup.virtualhub.events

A video replay of the presentation will be available through the Phoenix Group website post-event.

Enquiries

Investors/analysts:
Claire Hawkins, Corporate Affairs and Investor Relations Director, Phoenix Group
+44 (0)20 3735 0575

Media:
Douglas Campbell, Teneo
+44 (0)775 313 6628

Haya Herbert Burns, Teneo
+44 (0)734 203 1051

Shellie Wells, Head of Corporate Communications, Phoenix Group
+44 (0)203 735 0922

Appendices

Appendix 1: Estimated PGH Shareholder Solvency II surplus

£bn	30-Sep-20[2]	30-Jun-20 Pro-forma[3]	31-Dec-19 Pro-forma[6]
Own Funds	13.6	13.2	13.0
SCR	8.6	8.8	8.6
Surplus	5.0	4.4	4.4
Shareholder Capital Coverage Ratio[4]	159%	150%	152%

Appendix 2: Estimated PGH Regulatory Solvency II surplus

£bn	30-Sep-20[2]	30-Jun-20 Pro-forma[3]	31-Dec-19 Pro-forma[6]
Own Funds	17.0	16.3	15.5
SCR	12.0	11.9	11.1
Surplus	5.0	4.4	4.4
Shareholder Capital Coverage Ratio[4]	142%	137%	140%

Appendix 3: Change in estimated PGH Solvency II surplus

	£bn	SCCR[4]
PGH Solvency II surplus as at 31 December 2019 Pro-forma[6]	**4.4**	**152%**
Surplus emerging and release of capital requirements	0.5	9%
Debt raise	0.2	3%
Management actions	0.6	8%
New business strain[7]	(0.1)	(3)%
Dividend, financing, corporate costs & pension contributions	(0.5)	(7)%
Assumption changes	0.1	1%
Economic variances and other	(0.2)	(4)%
PGH Solvency II surplus as at 30 September 2020[2]	**5.0**	**159%**

Appendix 4: Solvency II sensitivities

	Solvency II surplus	SCCR
	£bn	%
Solvency II base at 30 September 2020[2]	5.0	159
Equities: 20% fall in markets	5.0	160
Property: 12% fall in values[8]	4.8	156
Rates: 73bps rise in interest rates[9]	5.1	165
Rates: 88bps fall in interest rates[9]	4.8	152
Credit spreads: 120bps widening with no allowance for downgrades[10]	4.8	160
Credit downgrade: immediate full letter downgrade on 20% of portfolio[11]	4.4	151
Lapse: 10% increase/decrease in rates[12]	4.8	157
Longevity: 6 month increase[13]	4.1	149

Appendix 5: Asset mix of total shareholder and non-profit

£m	30-Sep-20	30-Jun-20 Pro-forma[14]
Cash deposits	5,205	5,132
Debt securities		
Debt securities - gilts	7,450	7,902
Debt securities - Other Gvnt and Supranational	2,560	2,672
Debt securities – other liquid bonds	20,364	21,451
Debt securities - illiquids	5,023	3,895
Total debt securities	**35,397**	**35,920**
Equity securities	103	110
Property investments	85	86
Commercial Real Estate	981	984
Equity Release Mortgages	3,256	3,111
Other investments	590	500
Total	**45,617**	**45,843**

Appendix 6: Sector analysis of bond portfolio, 30 September 2020

£m	AAA	AA	A	BBB	BB & below and unrated	Total	%
Industrials	-	66	361	1,014	43	**1,484**	**4**
Consumer, Cyclical	-	472	356	370	63	**1,261**	**4**
Tech and Telecoms	100	257	658	968	-	**1,983**	**6**
Consumer, Non-cyclical	221	324	1,114	493	-	**2,152**	**6**
Banks	794	830	3,037	740	36	**5,437**	**15**
Financial Services	98	354	406	256	29	**1,143**	**3**
Utilities	28	58	2,264	1,954	-	**4,304**	**12**
Gilts/Sovereign/Supra/ sub-sov	1,488	8,719	386	2	44	**10,639**	**30**
Real Estate	34	134	2,636	449	73	**3,326**	**9**
Insurance	-	552	426	119	22	**1,119**	**3**
Oil and Gas	-	186	302	87	2	**577**	**2**
Infrastructure	-	62	285	1,062	20	**1,429**	**4**
Other[15]	32	160	300	51	-	**543**	**2**
Total	**2,795**	**12,174**	**12,531**	**7,565**	**332**	**35,397**	**100%**
Total %	**8%**	**34%**	**35%**	**21%**	**2%**	**100%**	

Appendix 7: New business

	Long term cash generation £m	Gross inflows (on new business) £bn	Capital strain[7] £m
Workplace	94	0.9	8
Customer Savings & Investment	42	2.8	2
Retirement Solutions	300	1.4	116
SunLife	20	0.2	-
Europe	16	0.9	10
Total	**472**	**6.2**	**136**

Notes

1. Cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, debt interest, debt repayments and other items. The cash generation figure of £1,713 million represents full year 2020 cash generation.
2. The 30 September 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.2 billion and 3% respectively.
3. The pro-forma position for the Combined Group assumes the acquisition of ReAssure and the novation of equity hedging instruments from the Group's holding companies to ReAssure Assurance Limited took place on 30 June 2020. The 30 June 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Life companies.
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. FY2019 figures have been restated to include SunLife incremental long-term cash generation of £8 million.
6. The pro-forma position for the Combined Group assumes the acquisition of ReAssure took place on 31 December 2019. The position reflects a regulator approved recalculation of transitionals as at 31 December 2019 for all Group companies.
7. Includes £136 million strain from Open new business and £4 million strain on internal vestings.
8. Property stress represents an overall average fall in property values of 12%.
9. 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.
10. 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 or downgrades.
11. 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.
12. Assumes most onerous impact of a 10% increase or decrease in lapse rates across different product groups.
13. Applied to the annuity portfolio.
14. Asset data as at 30 June 2020 is based on a pro-forma position of the Combined Group, and excludes supported with-profits funds.
15. Includes Basic Materials, Structure Finance, Diversified, Investment Companies and CDOs.
16. 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.
17. References to the 'Combined Group' are to the Group following completion of the acquisition of ReAssure Group plc.
18. 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.

19. 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 and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial 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 and the effect of the European Union's "Solvency II" requirements on the Group's capital maintenance requirements; the impact of inflation and deflation; the political, legal, social and economic effects of the COVID 19 pandemic and the UK's vote to leave the European Union; 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 future acquisitions 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, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

20. As a result, the Group's actual future financial condition, performance and results may differ materially 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.