Group Chief Executive Officer's report

Successfully delivering our strategy

2023 has seen Phoenix Group deliver significant strategic progress and strong results, further supporting our track record of dividend growth.

- We are on a journey from being a closed-book life consolidator to a purpose-led retirement savings and income business
- Strong 2023 results delivered through strategic execution
- We are balancing our investment to grow, optimise and enhance our business
- Our strategy delivers sustainable, growing Operating Cash Generation that more than covers our recurring uses and a growing dividend
- Phoenix will now operate a progressive and sustainable ordinary dividend policy

£2.0bn
2023 Total cash generation (2022: £1.5bn) REM APM

+2.5%
2023 Final dividend increase

I am delighted that 2023 was another year of strong new business growth for Phoenix Group. Having now built the component parts of a sustainably growing business, the next stage on our journey will see us grow, optimise and enhance our business so we can meet more of our customers' retirement needs and deliver more value for our stakeholders.

Andy Briggs, Group Chief Executive Officer

Delivering strong results

2023 has been another year of clear strategic delivery for Phoenix.

We're a highly cash generative business, as demonstrated by the delivery of £2.0 billion of total cash generation in 2023 (2022: £1.5 billion), exceeding our upgraded target of c.£1.8 billion target for the year. This was supported by the completion of one of the largest ever UK insurance Part VII transfers.

Executing against our strategic priorities enabled us to deliver another record year of new business long-term cash generation ('NB LTCG') of £1.5 billion (2022: £1.2 billion). This was supported by a c.70% increase in new business net fund flows in 2023 to £6.7 billion (2022: £3.9 billion). Performance in our Pensions and Savings business included the transfer of the Siemens workplace scheme, one of the largest workplace scheme transfers to have been tendered in the UK market in recent years. This clearly demonstrates the success we have had in re-establishing the Standard Life brand as a major workplace player. Growth in our Retirement Solutions business was also strong, driven by our Bulk Purchase Annuities ('BPA') business, which saw the Group write £6.2 billion of premiums during the year (FY22: £4.8 billion) at a reduced capital strain.

From a capital perspective, we saw a reduction in our Solvency II surplus to £3.9 billion (2022: £4.4 billion) and our Shareholder Capital Coverage Ratio ('SCCR') to 176% (2022: 189%) after allocating capital into growth opportunities. However, we continue to operate towards the upper-end of our 140–180% SCCR operating range.

In terms of our earnings, our IFRS adjusted operating profit increased by 13% to £617 million (2022: £544 million) supported by growth in our Pensions and Savings business. However, we reported an IFRS loss after tax of £(88) million, reflecting our investment into growth opportunities, as well as integration and transformation expenses in the period. However, this was significantly lower than the 2022 loss of £(2,657) million, benefiting from less accounting volatility from market movements.

As a result of this strong strategic and financial performance, the Board has recommended a 2.5% increase in the Final dividend of 26.65 pence per share, bringing the Total 2023 dividend to 52.65 pence per share, extending our strong track record of dividend growth.

A strategy supported by existing large and growing markets

Phoenix Group is the UK's largest long-term savings and retirement business, managing c.£283 billion of assets for c.12 million customers. Our purpose of 'helping people secure a life of possibilities' is embedded in everything that we do and informs our single strategic focus, which is to help customers journey to and through retirement.

We have a diversified and balanced business mix, across the long-term savings and retirement market, which can be largely categorised as 'Pensions and Savings' and 'Retirement Solutions'. Around two-thirds of our business is Pensions and Savings, which principally consists of capital-light fee-based products.

Standard Life
Part of Phoenix Group

Investing in the Standard Life brand

A key part of our growth strategy is leveraging the power of the Standard Life brand that we acquired in 2021. We now utilise the brand across our Retirement Solutions, Pensions and Savings and European businesses.

The Standard Life brand has a deep history and heritage, and is well known and trusted by advisers and customers. It has been a key factor in supporting our strong organic growth over the past few years and will support us in our future growth ambitions. As part of our drive to deliver our growth targets, we are committed to investing in the brand through initiatives like our Race for Life partnership and recent advertising campaigns.

Group Chief Executive Officer's report continued

176%
Shareholder Capital Coverage Ratio (2022: 189%) APM

£6.7bn
New business net fund flows (2022: £3.9bn) APM

£1.5bn
Incremental new business long-term cash generation (2022: £1.2bn) REM APM

The UK long-term savings and retirement market is already large, with c.£3 trillion of total stock, but it is also growing fast, with annual flows of c.£150–200 billion. The breadth of our product portfolio means we are able to take advantage of a number of growing market opportunities. See pages 18 to 19 for 'Our growth drivers'.

Embarking on the next stage of our journey

Back in 2020, we had a single core capability, which was executing M&A and integrating those businesses. However, over the past three years we have built a number of sustainably growing organic businesses too.

This has seen us acquire and invest into the trusted Standard Life brand, and re-establish it amongst customers, corporates and advisers.

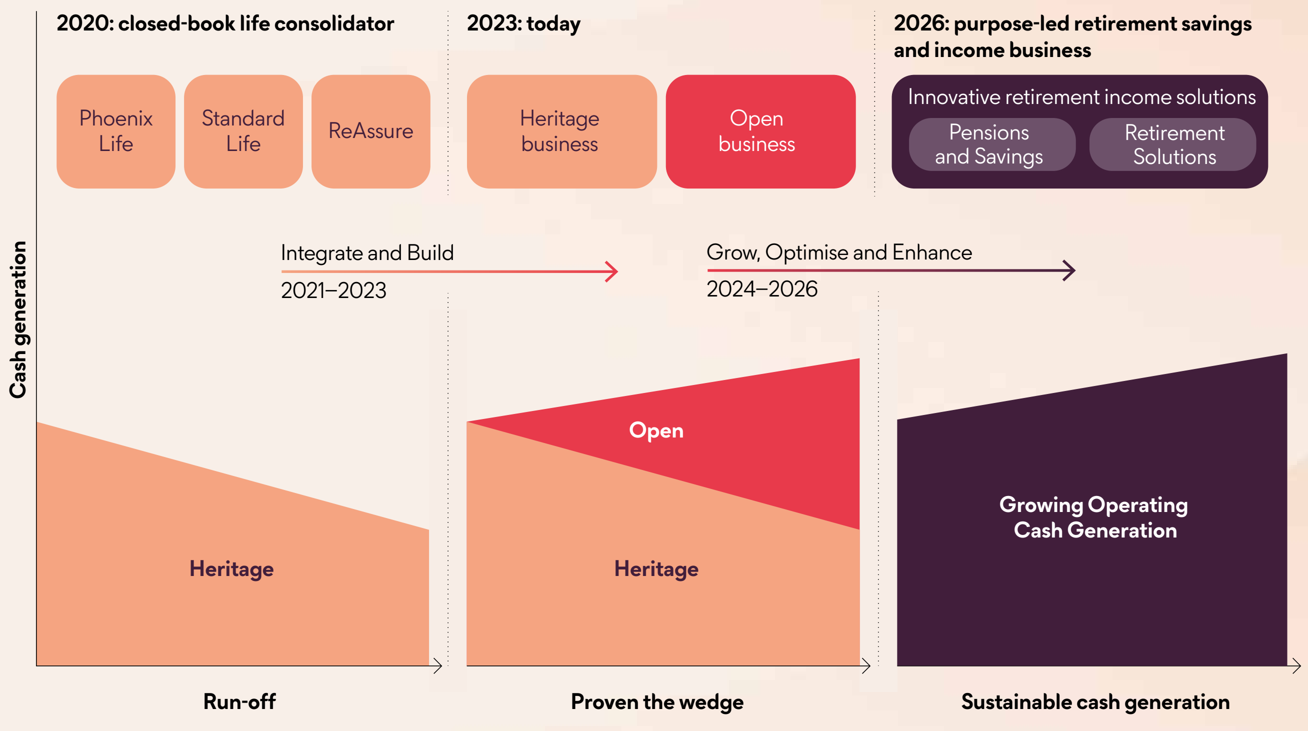
We have used that brand to help turbo-charge our growth as we built a competitive and capital efficient annuities business, followed by our now large and rapidly growing capital-light Workplace business. In addition, we have built a highly-skilled in-house asset management capability, enabling us to efficiently manage our third-party asset managers, and to create long-term value through optimising our c.£38 billion shareholder credit portfolio.

We have an ongoing programme of initiatives to review our products and services and over the past seven years, we have invested significantly in focusing on good customer treatments and outcomes across our businesses. During that time, we have set aside over £200m on reducing charges and we are making planned investment to migrate customers to more modern technology. We are actively working to ensure we are well positioned to comply fully with the upcoming Consumer Duty requirements which come into effect on 31 July 2024, for which we set aside £70 million of Solvency II capital.

Our successful execution has enabled us to prove "the wedge" hypothesis, with the new business cash from our Open businesses more than offsetting the Heritage run-off. That means we are today a sustainably growing business, and no longer reliant on M&A.

The next phase of our strategy is therefore about building on the strong foundations we have developed, and completing our full-service customer offering.

Phoenix Group is transitioning from a closed-book life consolidator to a purpose-led retirement savings and income business



We will do this by building an innovative range of retirement income solutions and a compelling set of retail propositions, supported by a digital customer interface with personalised data, guidance and advice. We are also now at the stage where we can further simplify our organisational structure, through integrating our Heritage and Open businesses onto a single Group-wide operating model. This will enable us to grow faster, by offering all of our customers, whether in an Open or Heritage product, a seamless journey across their savings life cycle. It will also further enhance our existing cost efficiency.

The successful execution of our strategy will enable us to win market share and grow our business sustainably over time as we journey towards our vision of becoming the UK's leading retirement savings and income business.

Balancing investment across our strategic priorities

To support us on our journey we have a clear set of strategic priorities to 1) Grow 2) Optimise and 3) Enhance, which are informed by – and in support – of our ESG themes of Planet and People and are underpinned by robust investment programmes within our new capital allocation framework. See pages 24 to 29 for more detail on our strategic priorities.

Firstly, we will Grow through building an innovative range of retirement income solutions, and a compelling set of Retail propositions, supported by a digital customer interface, with personalised data, guidance and advice. We will also further strengthen our Workplace proposition and optimise our annuities business. This will require c.£100 million of investment into our growth propositions, alongside c.£200 million of capital per annum into annuities, the outcome of which is to support mid-single digit growth in Operating Cash Generation over the long term.

Our second priority is to Optimise. As part of this we plan to continue our approach of repaying M&A-related debt with surplus cash. We expect to repay at least £500 million of debt by the end of 2026, on top of the c.£800 million we have repaid since 2020. This will support us in getting to a c.30% Solvency II leverage ratio by the end of 2026, which we believe is an appropriate steady-state level for our business, absent M&A.

We will also invest c.£100 million to enhance our asset and liability optimisation capabilities. This, alongside strong business growth, will support us in delivering increased recurring management actions of c.£400 million by 2026.

Our Enhance priority is designed to support us in transforming our operating model and culture, to create a leading, cost efficient and modern organisation.

We continue to invest to complete our remaining customer migrations onto TCS Diligenta. In addition, we intend to invest to improve the support we give our customers throughout their lives and to drive scale cost efficiencies by integrating our business onto a single Group-wide operating model. Together, these migration, transformation and cost efficiency programmes will require c.£500 million of investment.

Our focus on driving cost efficiency will enable us to deliver c.£250 million of annual cost savings by the end of 2026, which will enhance all of our key reporting metrics.

We also continue to strive to make Phoenix Group 'the best place any of us have ever worked'; through providing a great colleague experience. We passionately believe that by being diverse and inclusive we'll be a better organisation, we'll make better decisions, and we'll do a better job of representing our customers and communities.

Our new simplified, diverse and inclusive organisational structure will better empower our colleagues to make the right decisions for our customers.

Demonstrating the long-term sustainability of our business

Our strategy will support the delivery of sustainable, growing cash generation, a resilient capital position and improved earnings.

As part of our evolved financial framework we are introducing Operating Cash Generation ('OCG') as a new metric, to demonstrate the long-term sustainability of our business.

OCG is the sustainable level of surplus generation in our Life Companies, each and every year, that is also then remitted as cash to our Group Holding Company. See page 33 in our Business Review for more detail.

Executing against our strategic priorities will help us to grow OCG by c.25% over the next three years, from £1.1bn in 2023 to £1.4bn in 2026. After this time, we expect it to grow at a sustainable, mid-single digit growth rate over the long term.

Importantly, this OCG more than covers our recurring uses, and a growing dividend. Which generates excess cash that can support additional investment back into the business and/or additional shareholder returns.

M&A can add further scale to our business

Our existing scale and the success of our organic growth strategy mean that we are no longer reliant on M&A to grow our business and dividend, in the way we were when I joined.

We continue to believe that M&A can generate significant shareholder value, as demonstrated by our strong track record, and we see it as a potential lever to add further scale to our business.

However, we now have a range of organic growth opportunities available, in which to deploy our excess cash at very attractive returns, and so the bar for acquisitions is now higher than it has ever been.

Outlook

The economic backdrop in the UK means our societal purpose of helping people secure a life of possibilities has never been more important.

As we continue to strive to meet the needs of our customers, colleagues and other key stakeholders, this will support us in achieving our vision of becoming the UK's leading retirement savings and income business.

We are investing to grow, optimise and enhance our business to deliver this vision, which will enable us to win market share and grow our business sustainably over time.

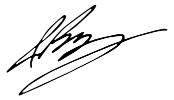
As a result, the Board believes it is now appropriate for us to move to a progressive and sustainable ordinary dividend policy, which is underpinned by the sustainable, growing OCG we expect to deliver over the long term.

We see this as a pivotal step in the evolution of Phoenix Group's investment case, and it is a reflection of the Board's confidence in our future strategy.

Thank you

The fantastic progress Phoenix Group has made this year could not have been achieved without our exceptional people. I would therefore like to thank my colleagues throughout the Group for their continued contribution and dedication.

I look forward to our team delivering another year of significant progress in 2024.



Andy Briggs
Group Chief Executive Officer