Delivering cash, resilience and growth

"The strong strategic progress we have made during 2022 has enabled us to continue delivering on our financial framework and to recommend a 5% dividend increase for the year."

Rakesh Thakrar, Group Chief Financial Officer

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A strong financial performance in 2022

Financial performance metrics:		2022	2021	YOY change
Cash	Cash generation	£1,504m	£1,717m	-12%
New Business	Incremental long-term cash generation	£1,233m	£1,184m	+4%
Dividends	Total dividend per share	50.8p	48.9p	+4%
	Final dividend per share	26.0p	24.8p	+5%
IFRS	Adjusted operating profit before tax	£1,245m	£1,230m	+1%
	Loss after tax	£(1,762)m	£(709)m	-149%

Other financial metrics:		2022	2021	YOY change
Solvency II Capital	PGH Solvency II surplus	£4.4bn	£5.3bn	-17%
	PGH Shareholder Capital Coverage Ratio ('SCCR')	189%	180%	+9%pts
In-force cash	Group in-force long-term free cash	£12.1bn	£11.8bn	+3%
Assets	Assets under administration	£259bn	£310bn	-16%
Leverage	Fitch leverage ratio	30%	28%	+2%pts

I am delighted that we have once again delivered a year of strong financial performance, as we execute on our strategy and fulfil our purpose.

We have delivered another year of resilient cash generation, with £1.5 billion generated in 2022, exceeding our target range of £1.3-to-£1.4 billion for the year.

We have also maintained our resilient capital position with a Solvency II ('SII') surplus of £4.4 billion and a SCCR of 189%, which is above our target ratio range of 140% to 180%.

In terms of new business growth, we have delivered record incremental new business long-term cash generation of £1,233 million. This means that for the second consecutive year we have more than offset the run-off of our in-force business.

We have also grown inorganically through M&A, having announced our first ever cash funded acquisition of Sun Life of Canada UK, which we expect to complete in April.

Our strong strategic and financial performance this year has therefore enabled the Board to recommend a dividend increase of 5% for the year.

With £0.3 billion growth in our Group in-force long-term free cash to £12.1 billion, our increased level of dividend remains every bit as sustainable over the very long term. With this increased long-term free cash, which will be available to shareholders over time, proof that Phoenix is a sustainable, growing business.

In terms of our IFRS reporting, the Group's adjusted operating profit remained strong at £1,245 million, but we have reported an IFRS loss after tax of £(1,762) million. This primarily reflects £(2,673) million of adverse investment return variances from accounting volatility in relation to our hedging instruments and includes economic movements on assets within our corporate pension schemes that have been subject to a buy-in. Taking into account the corresponding decrease in our pension scheme liabilities of £940 million, Total Comprehensive Expense for the year was £(1,076) million. This impact has, in turn, increased our Fitch leverage ratio to 30%, which remains within our target operating range of 25–30%.

As a reminder, our hedging approach is designed to stabilise our SII Surplus and Group in-force long-term free cash, which in turn protects our dividend paying capacity. However, this does cause significant IFRS volatility due to a mismatch between our IFRS balance sheet, and the Solvency balance sheet that we are hedging (see page 31 for more detail). However, we accept this as the trade-off to deliver the resilient cash generation and dividend we are known for.

I am proud of the strategic progress we have made this year, particularly in driving forward our organic growth strategy. At our Capital Markets Event in December we outlined the journey we have been on and our future ambitions.

In Retirement Solutions, we have now firmly established ourself as a key player in the BPA market, with another really successful year of growing our BPA business.

We have also been focused on cultivating our fee-based businesses, to develop more balanced organic growth, in particular in our Pensions and Savings business. I am therefore delighted to see the progress we are making in our Workplace business, where we have seen a renewed trust in our proposition, enabling us to both retain our existing schemes and attract new clients.

Our confidence in our future organic growth strategy has enabled us to set our first ever incremental new business long-term cash generation target, of c.£1.5 billion per annum by 2025.

So looking back on 2022, it has been a year of clear strategic progress, that supported us to deliver a strong set of financial results. Importantly, our business is growing, as demonstrated by the growth in our Group in-force long-term free cash to £12.1 billion, which sustains our increased dividend over the very long term. Our Solvency capital position also remains highly resilient, despite the unprecedented economic volatility last year, with our SCCR of 189%. This supports provides us with significant capacity to invest into growth.

This is Phoenix's financial framework in action, as we deliver resilient and predictable cash generation, which underpins a dividend that is sustainable and grows over time.

Our key performance indicators

With our financial framework designed to deliver cash, resilience and growth, we recognise the need to use a broad range of metrics to measure and report the performance of our company, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP') or the statutory reporting framework. The IFRS results are discussed on pages 38–39 and the IFRS financial statements are set out from page 168 onwards.

Alternative performance measures

In prioritising the generation of sustainable cash flows from our operating companies, performance metrics are monitored where they support this strategic purpose, which includes ensuring that the Solvency II capital strength of the Group is maintained. We use a range of alternative performance measures ('APMs') to evaluate our business, which are summarised below.

Cash generation

Cash generation remains our key performance metric. It represents the net cash remitted from the operating entities to the Group, supported by the free surplus above capital requirements in the life companies, which is generated through margins earned on life and pension products and the release of capital requirements, and group tax relief.

This cash generation is used by the Group to fund expenses, interest costs and shareholder dividends, with any surplus then available to reinvest into organic and inorganic growth opportunities.

Solvency II

Solvency II is a key metric by which the Group makes business decisions and measures capital resilience. It is a regulatory measure that prescribes the measurement of value on a Solvency II basis and the calculation of the solvency capital requirement ('SCR'). The excess value above the SCR is reported as both a financial amount, "Solvency II surplus", and as a ratio "Solvency II Shareholder Capital Coverage Ratio ('SCCR')".

Fitch leverage

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure we maintain our investment grade rating issued by Fitch Ratings and optimise our financial flexibility to support future acquisitions. Our financial leverage is calculated (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity.

Incremental new business long-term cash generation

Incremental new business long-term cash generation is a key metric for measuring growth. It represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the period. By generating sufficient incremental long-term cash generation to offset the run-off of our in-force business cash flows, we can bring long-term sustainability to future cash generation to grow the value of our in-force business.

Group in-force long-term free cash

This represents the cash expected to be available over time to fund future dividends from existing business and supports the sustainability of our dividend over the very long term. It comprises the cash expected to emerge from our in-force business over its lifetime, plus existing Group holding company cash, less committed costs associated with our M&A integration activity, the repayment of all shareholder debt and servicing of interest costs to maturity.

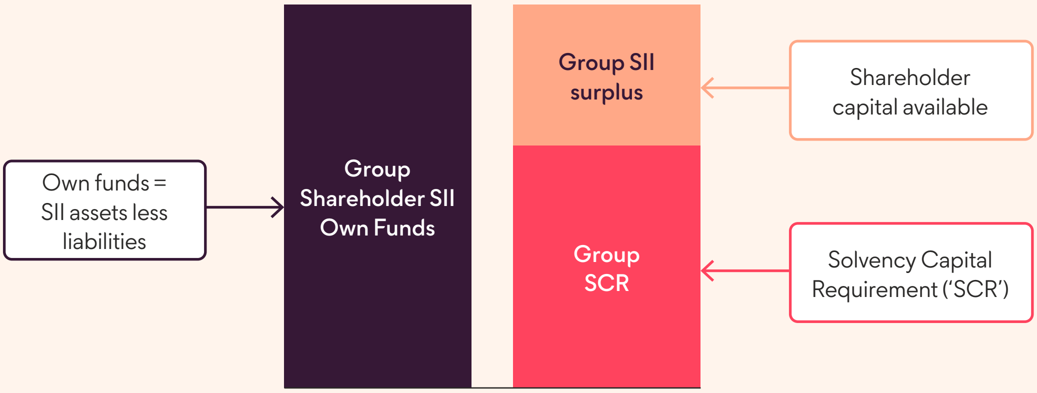
Assets under Administration

The Group's Assets under Administration ('AUA') represents our assets administered by or on behalf of the Group, covering both shareholder and policyholder, and indicates the potential long-term earnings capability of the Group arising from its insurance and investment business. Positive net flows in AUA is another indicator of growth for the Group.

Adjusted operating profit

The Group uses adjusted operating profit as a measure of IFRS performance based on long-term assumptions. Adjusted operating profit is less affected by the short-term market volatility driven by Solvency II hedging (as illustrated on page 31) and non-recurring items than IFRS profit. A more detailed definition of adjusted operating profit is set out on page 314.

Why is Solvency II important to us in measuring performance?



What are Own Funds?

Solvency II Own Funds represent the Group's net assets on a regulatory basis. Assets and non-technical liabilities are valued on a fair value basis, and technical provisions (policyholder liabilities) are calculated on a best estimate basis (weighted average of future cash flows), with an adjustment for risk known as the 'risk margin'.

Own Funds also include a value for future profits expected to arise from in-force policies, and any debt that meets the definition of capital under Solvency II rules.

Shareholder Own Funds reflects a restriction for any excess over SCR in the Group's with-profit funds and pension schemes as this excess doesn't belong to shareholders and so cannot be included.

What causes Own Funds to change?

Own Funds can grow through writing profitable new business and through the delivery of value accretive management actions and synergies. Group expenses, financing costs, and dividends cause own funds to fall. Changes in demographic assumptions and experience will also impact own funds.

Own Funds are also sensitive to market movements. Our hedging strategy seeks to stabilise the Solvency II surplus, but this means hedge values can move Own Funds up or down, to offset the market movements impact on surplus, which can also arise from movements in the SCR.

What is the Solvency Capital Requirement ('SCR')?

The SCR is a capital buffer held to ensure that the Group can meet its obligations over the next 12 months with a probability of at least 99.5%. The calculation stresses both assets and liabilities in line with 1-in-200 year risk events to establish how much additional capital we would require to remain solvent. It is a risk-based approach, requiring Phoenix to hold capital against a range of risks, not just insurance risks.

The SCR can be calculated using a 'standard formula' or 'internal model'. We use an approved internal model for Phoenix Life and Standard Life, with Standard Life International DAC on a partial internal model and ReAssure currently on standard formula.

What causes the SCR to change?

SCR is impacted by both market risk and demographic risk in roughly equal proportions (see page 313 for a breakdown). Markets will cause changes in SCR as our investment mix changes (some assets are more risky than others) or asset values change (increased assets can mean increased risk). Demographic risks, such as longevity or persistency, can change the SCR depending on experience, assumption changes or any change in business mix.

Why is Solvency II surplus a key measure for Phoenix?

The excess of Group Own Funds above the Group SCR is the Solvency II surplus. It indicates how much shareholder capital we have available to deliver shareholder returns in the form of dividends, and to reinvest to grow the business organically and inorganically.

In order to maintain a resilient Solvency II balance sheet to protect our sustainable dividend, Phoenix operates a dynamic risk management framework which seeks to manage our exposure to each of the risks that the Group faces within its risk appetite.

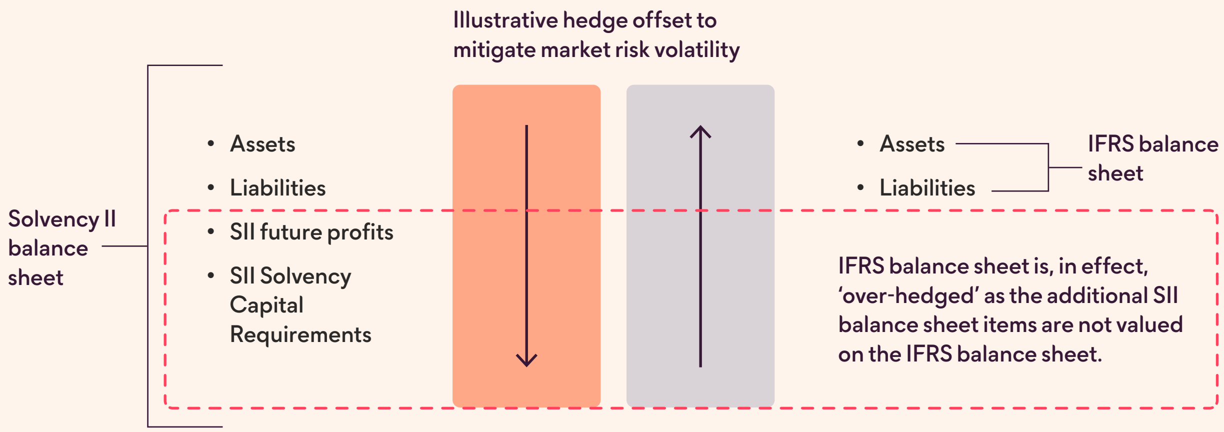
Shareholder Capital Coverage Ratio ('SCCR')

The SCCR represents Group Own Funds divided by the SCR, adjusted to a shareholder view through the exclusion of amounts relating to ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR. This is because these Own Funds do not belong to the shareholder and the corresponding SCR is not in respect of shareholder risk. We articulate our risk appetite through an SCCR target operating range of 140%–180%.

This allows us to focus on a shareholder view of the capital coverage ratio that provides a more accurate reflection of the capital strength of the Group.

Phoenix Group's comprehensive hedging approach

We hedge what we deem to be the unrewarded market risks from equities, currency, inflation and interest rates. This is designed to protect our Solvency II capital position to deliver dependable cash generation and balance sheet resilience, which underpins our sustainable dividend over the long-term. We see this as a key differentiator for Phoenix compared to other insurance companies and this is evidenced by our significantly lower sensitivities to these market risks than our UK peers. However, as a result of our hedging approach, we do see significant accounting volatility (as illustrated below) which distort most of the Group's IFRS metrics. Importantly though this does not impact our cash generation delivery or dividend paying capacity, which is funded from our Solvency capital position.



Impact of market rise

- Solvency II – loss on hedge provides an offset to the positive market risk impact to stabilise our Solvency II capital position.
- IFRS – loss on the hedging instrument is recognised but the gain on revaluation of the additional Solvency II balance sheet items is not.

Impact of market fall

- Solvency II – gain on hedge provides an offset to the adverse market risk impact to stabilise our Solvency II capital position.
- IFRS – gain on the hedging instrument is recognised but the loss on revaluation of the additional Solvency II balance sheet items is not.

Our risk management in action

Our comprehensive risk management approach ensures we remain resilient through the economic cycle. During 2022, we have seen unprecedented economic volatility, with UK political instability leading to government bond yield increases that were equivalent to a 1-in-1,000 year economic shock event.

However, our comprehensive hedging approach resulted in only a limited impact on our capital position, with a £(0.4) billion SII surplus adverse economic variance. By protecting the SII capital position in our life companies, we are able to deliver resilient cash generation and ensure the long-term sustainability of our dividend.

We also continue to maintain surplus liquidity in line with our conservative liquidity framework, which enabled us to meet all collateral calls on our hedging instruments during the turbulent markets in the second half of 2022, with no forced selling of assets required at any point.

Phoenix also has a focused business strategy and does not participate in the Liability Driven Investment ('LDI') in any way, meaning we were not directly impacted by the 'LDI crisis' during 2022.

Cash

Operating companies' cash generation

£1.5bn

Group in-force long-term free cash

£12.1bn

Cash generation

Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies. Please see the APM section on page 314 for further details of this measure.

Cash generation from the operating companies' is principally used to fund the Group's shareholder dividends, debt interest and repayments, and its various operating costs. Any surplus remaining is available for reinvestment into organic and M&A growth opportunities.

The cash flow analysis that follows reflects the cash paid by the operating companies to the Group's holding companies, as well as the uses of those cash receipts.

Group cash flow analysis

£m	2022	2021
Cash and cash equivalents at 1 January	**963**	**1,055**
Operating companies cash generation:		
Cash receipts from life companies[1]	**1,504**	**1,717**
Uses of cash:		
Operating expenses	(78)	(80)
Pension scheme contributions	(16)	(11)
Debt interest	(244)	(250)
Non-operating cash outflows	(395)	(305)
Debt repayments	(450)	(322)
Shareholder dividend	(496)	(482)
Total uses of cash	**(1,679)**	**(1,450)**
Support of BPA activity	(285)	(359)
Closing cash and cash equivalents at 31 December	**503**	**963**

1 Total cash receipts include £55 million received by the holding companies in respect of tax losses surrendered (2021: £95 million).

Cash receipts

Cash generated by the operating companies during 2022 was £1,504 million (2021: £1,717 million). This exceeded the Group's target range of £1.3-to-£1.4 billion for the year.

Uses of cash

Operating expenses of £78 million (2021: £80 million) represent corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £16 million were made in 2022 (2021: £11 million) with the increase on 2021 due to the inclusion of a £5 million contribution into the ReAssure pension scheme following a triennial review.

Debt interest of £244 million (2021: £250 million) reflects interest paid in the period on the Group's debt instruments. The small decrease year-on-year is due to the repayment of debt in June 2022 and elimination of interest thereon.

Non-operating cash outflows of £395 million (2021: £305 million) primarily comprises centrally funded projects and investments. £90 million relates to Group project expenses for the transition activity in relation to the Standard Life platform migration, £40 million for other ongoing integration programmes including ReAssure, and £33 million for our Finance Transformation including implementing the new IFRS 17 accounting standard.

We also incurred £15 million of costs related to our cost of living colleague support, £12 million of acquisition costs related to the Sun Life of Canada UK transaction, and made a £15 million equity investment into the open finance platform Moneyhub.

There was also a further £77 million of other project costs, £68 million from the close-outs in respect of Group hedging instruments and £45 million of other items.

Debt repayments

Debt repayments in 2022 reflect the repayment of the £450 million Tier 3 subordinated bond in July (2021: £322 million), as the Group manages its leverage.

Shareholder dividend

The shareholder dividend of £496 million represents the payment of £248 million in May for the 2021 final dividend and the payment of the 2022 interim dividend of £248 million in September.

Support of BPA activity

Funding of £285 million (2021: £359 million) has been provided to the life companies to support a strong year in BPA with £4.8 billion of premiums written (2021: £5.6 billion).

The decrease relative to 2021 reflects the Group's success in optimising its capital with a reduction in the Group's capital strain on BPAs to 5.8% in 2022 (2021: 6.5%). This enabled the Group to write a similar amount of incremental new business long-term cash generation, but with 20% less capital invested.

Future cash targets set

Our business model is designed to deliver high levels of predictable cash generation, enabling us to set very clear targets. We are therefore setting a one-year target of £1.3 to £1.4 billion again in 2023.

We have also set an increased three-year cash generation target of £4.1 billion for 2023–2025. This includes £0.1 billion of expected cash emergence from the Sun Life of Canada UK acquisition and, for the first time, cash emergence from new business we expect to write in 2023 and 2024 of £0.2 billion.

Future sources and uses of cash

Looking over the period 2023–2025, and after we have invested £248 million to fund the acquisition of Sun Life of Canada UK, we expect to have surplus cash of around £1.45 billion available to invest into growth.

We will therefore continue to invest into organic growth through BPA and our fee-based businesses, and will also continue to assess further M&A opportunities.

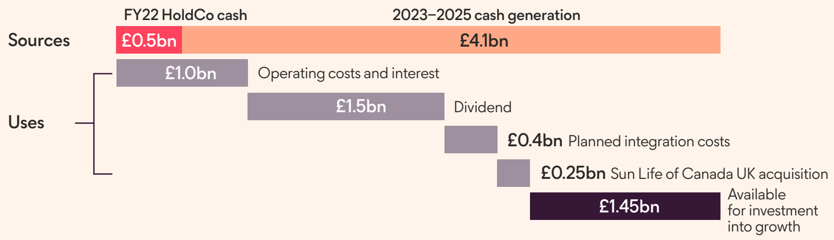
Group in-force long-term free cash

Group in-force Long-Term Free Cash ('LTFC') represents the cash expected to be available over time to fund future dividends from today's in-force business. This underpins the sustainability of our c.£0.5 billion annual dividend cost over the very long term.

Group in-force LTFC was £12.1 billion as at 31 December 2022 (2021: £11.8 billion). It comprises long-term cash generation expected to emerge from our in-force business plus existing Group holding company cash, less an allowance for costs associated with our M&A integration activity and a deduction for our shareholder debt outstanding and interest to maturity.

Growing our Group in-force LTFC allows us to demonstrate that we are a growing, sustainable business. I am therefore pleased that in 2022 we have increased our Group in-force LTFC by c.£0.3 billion.

Illustrative 2023–2025 HoldCo sources and uses of cash



Group in-force long-term free cash

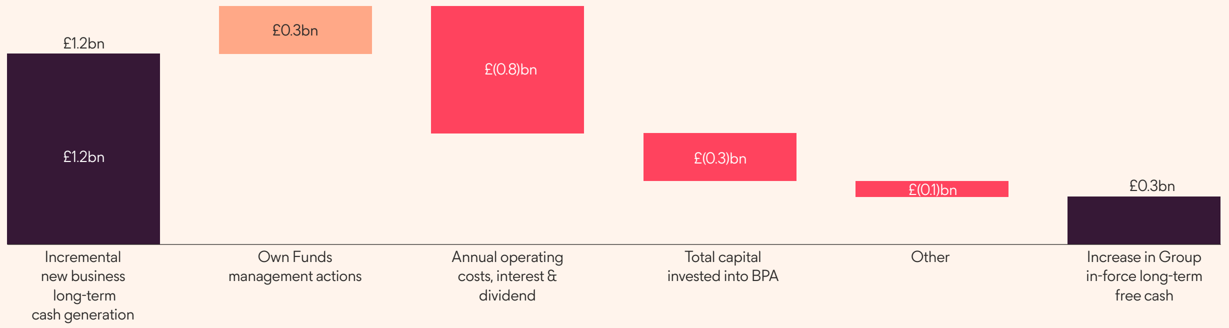
£bn	Group in-force LTFC Year ended 31 December 2022	Group in-force LTFC Year ended 31 December 2021
Long-term in-force cash generation	17.3	17.0
Plus closing Holding Company cash	0.5	1.0
Less M&A and transition costs	(0.4)	(0.2)
Group in-force long-term cash	**17.4**	**17.8**
Less shareholder debt	(4.1)	(4.6)
Less interest on debt to maturity	(1.2)	(1.4)
Group in-force Long-Term Free Cash	**12.1**	**11.8**

The movement in the year is driven by c.£1.2 billion of incremental new business long-term cash generation written in 2022 from organic growth and c.£0.3 billion of value-creating Solvency II own funds management actions.

This more than offsets the Group's c.£0.8 billion of annual operating costs, debt interest and dividends, c.£0.3 billion of capital invested into BPA in 2022, and c.£0.1 billion of net other uses of cash.

Growth in the Group's in-force LTFC supports us in delivering a dividend that is sustainable and grows over time.

Increase in Group in-force long-term free cash (£bn)



Resilience

Group Solvency II surplus (estimated)

£4.4bn

Group Shareholder Capital Coverage ratio (estimated)

189%

Capital management

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR').

The Group's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities, taxation and intangible assets.

Group Solvency II capital position

Our Solvency II capital position remains strong, with a resilient surplus of £4.4 billion (2021: £5.3 billion), which includes the accrual for the deduction of our 2022 final dividend of £260 million. Our Shareholder Capital Coverage Ratio ('SCCR') increased to 189% (2021: 180%). This is currently above the top-end of our 140%-to-180% target range, providing the capacity to invest into both organic and M&A growth opportunities.

Change in Group Solvency II surplus and SCCR

Our ongoing surplus emergence and release of capital requirement increased the SII surplus by £0.7 billion during the year, contributing to an increase in the SCCR of 16%pts.

We delivered strong management actions in the period, primarily from 'business as usual' actions as we continue to optimise our in-force business. Management actions contributed a further £0.7 billion of surplus increase and added 7%pts to the SCCR.

Operating costs, dividends and interest totalled £(0.8) billion, reducing the SCCR by 16%pts. We also repaid a c.£0.5 billion Tier 3 bond from our own cash resources in July 2022, reducing the SCCR by 9%pts.

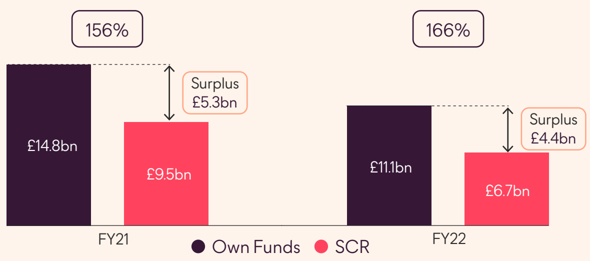
As a result of our comprehensive hedging strategy, designed to stabilise our capital position, we have minimised the adverse impact from economic variances to just a £(0.4) billion impact on our Solvency II surplus, despite unprecedented market turbulence last year. While this surplus movement from economics was relatively small, a consequence of our hedging approach is that we do see volatility in the Group's Own Funds, to offset against movements in the SCR, and this led to an 18%pts increase in the SCCR.

Importantly though, both the SII Surplus and SCCR impacts were broadly in line with our published sensitivities, which means our hedging operated as we expected it to.

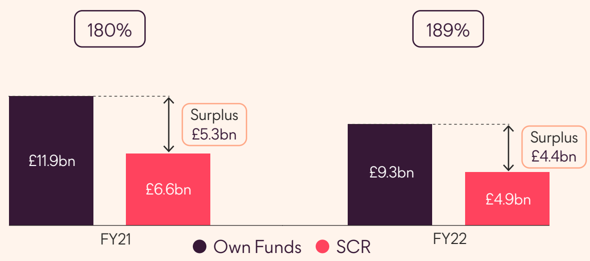
We also invested £0.3 billion of capital into growth, primarily for the funding of £4.8 billion of BPA premiums written in the year, which decreased the SCCR by 7%pts.

Other movements represent project spend to deliver Group initiatives, and a

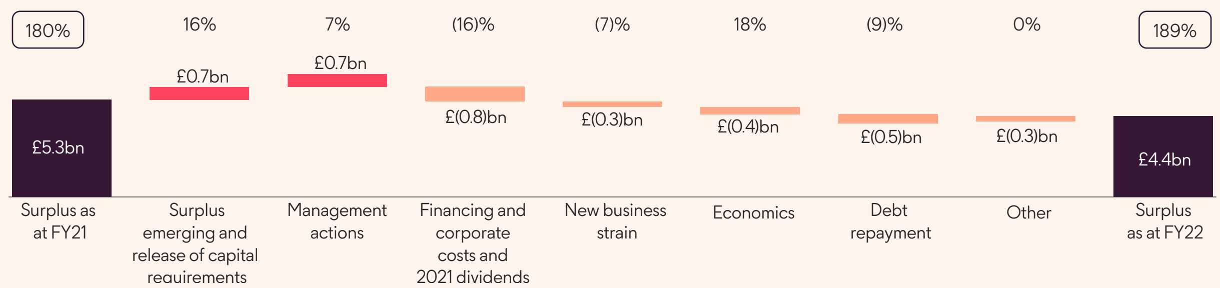
£4.4 billion Group Regulatory Solvency II surplus



£4.4 billion Group Shareholder Solvency II surplus



2022 change in Group Solvency II Surplus (£bn)



strengthening of expense assumptions for the IFRS 17 project and integration delivery. These movements decreased Solvency II surplus by £0.3 billion, but had a neutral impact on the SCCR, due to other assumption changes providing an offset.

Sensitivity and scenario analysis

As part of the Group's internal risk management processes, the Own Funds and regulatory SCR are regularly tested against a number of financial scenarios. The table provides illustrative impacts of changing one assumption while keeping others unchanged and reflects the business mix at the balance sheet date. Extreme markets movements outside of these sensitivities may not be linear.

While there is no value captured in the Group stress scenarios for recovery management actions, the Group does proactively manage its risk exposure. Therefore in the event of a stress, we would expect to recover some of the loss reflected in the stress impacts shown.

Unrewarded market risk sensitivities

We have a particularly low appetite to equity, interest rate, inflation and currency risks, which we see as unrewarded, i.e. the return on capital for retaining the risk is lower than for hedging it.

In order to stabilise our SII surplus, we regularly monitor risk exposures and use a range of hedging instruments to remain within a Board approved target range.

Equity risk primarily arises from our exposure to a variation in future management fees on policyholder assets exposed to equities, while our currency exposure primarily arises from our foreign currency denominated debt.

Our interest rate exposure principally relates to our shareholder credit portfolio, while our inflation exposure arises from both cost inflation expectations and inflation-linked policies.

Illustrative risk exposure stress testing

Estimated impact[1] on PGH Solvency II	Surplus £bn	SCCR %
Solvency II base	4.4	189
Equities: 20% fall in markets	nil	3
Long-term rates: 80bps rise in interest rates[2]	0.1	5
Long-term rates: 70bps fall in interest rates[2]	(0.1)	(5)
Long-term inflation: 60bps rise in inflation[3]	Nil	–
Property: 12% fall in values[4]	(0.2)	(4)
Credit spreads: 135bps widening with no allowance for downgrades[5]	(0.2)	(4)
Credit downgrade: immediate full letter downgrade on 20% of portfolio[6]	(0.3)	(7)
Lapse: 10% increase/decrease in rates[7]	(0.1)	(1)
Longevity: 6 months increase[8]	(0.5)	(10)

1 Illustrative impacts as at 1 January 2022 assume changing one assumption while keeping others unchanged, and reflects the business mix at the balance sheet date, and that there is no market recovery. Extreme markets movements outside of these sensitivities may not be linear.
2 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.
3 Stress reflects a structural change in long-term inflation with an increase of 60bps across the curve.
4 Property stress represents an overall average fall in property values of 12%.
5 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 and makes no allowance for the cost of defaults/downgrades.
6 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.
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
8 Applied to the annuity portfolio.

Rewarded credit risk sensitivities

We do however retain the credit risk in our c.£31 billion shareholder credit portfolio, and property risk in Equity Release Mortgages, where we see these risks as rewarded. The shareholder credit assets are primarily used to back the Group's annuity portfolio. Exposure to these risks is needed to back growth in the Group's annuity portfolio. Stress testing is used to inform the level of risk to accept and to monitor exposures against risk appetite.

We also actively manage our portfolio to ensure it remains high quality and diversified, and to maintain our sensitivities within risk appetite. Our BBB exposure is just 19% and we also remain conservative in the sector positioning of our credit portfolio, with only 3% of our credit portfolio exposed to cyclical sectors, with an average rating of A-.

The key sensitivity we focus on for credit is a full letter downgrade of 20% of our credit portfolio, which is £0.3 billion and is therefore small relative to the Group's £4.4 billion Solvency II surplus.

Demographic risk sensitivities

We also have two key demographic risks that we manage. Lapse risk arises from customers surrendering policies early or keeping policies with valuable guarantees for longer.

Our longevity risk principally arises from our annuity book, but this is managed through reinsurance, where we retain around half of the risk across our current in-force book, and reinsure most of this risk on new business.

Life Company Free Surplus

Life Company Free Surplus represents the Solvency II surplus of the Life Companies that is in excess of their Board-approved capital management policies. It is this Free Surplus from which the life companies remit cash to Group. We retain a significant Life Company Free Surplus of £2.3 billion which provides resilience to the Group's long-term cash generation. The table shown analyses the movements in 2022.

	Estimated position as at 31 December 2022 £bn
Opening Free Surplus	**2.6**
Surplus generation and run-off of capital requirements	0.8
Management actions	0.6
Economics, financing and other	(0.2)
Free Surplus before cash remittances	**3.8**
Cash remittances to holding companies	1.5
Closing Free Surplus	**2.3**

Growth

Incremental new business long-term cash generation

£1.2bn

Assets under Administration

£259bn

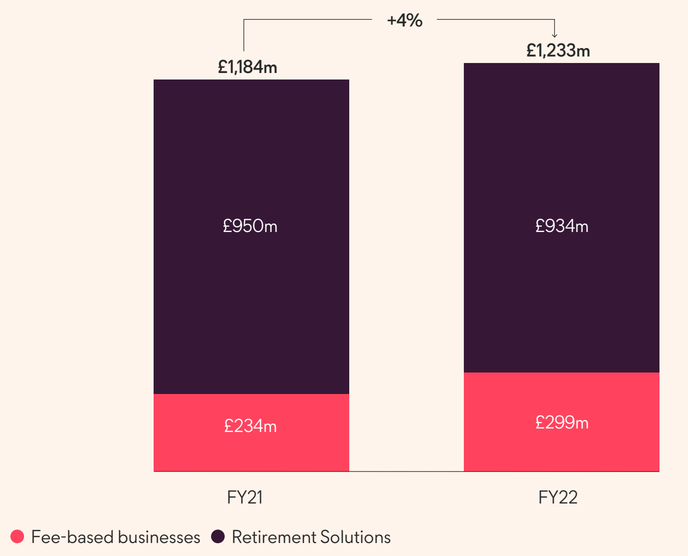
Incremental new business long-term cash generation reflects the impact on the Group's future cash generation arising as a result of new business transacted in the year. It is stated on an undiscounted basis.

Assets under administration ('AUA') provide an indication of the potential earnings capability of the Group arising from its insurance and investment business, whilst AUA flows provide a measure of the Group's success in achieving growth from new business.

A reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 309.

Please see the APM section on page 314 for further details of these measures.

Incremental new business long-term cash generation



Incremental new business long-term cash generation

We have delivered a record level of incremental new business long-term cash generation of £1,233 million in 2022 (2021: £1,184 million).

This means that we have once again delivered new business growth which allows us to more than offset the natural run-off of the in-force business cash generation of c.£800 million, demonstrating that Phoenix is a business that is growing organically.

Retirement Solutions

We have written £4.8 billion of BPA premiums in 2022. While this is a reduction on £5.6 billion written in 2021, we have maintained broadly the same level of incremental new business cash generation at £934 million (2021: £950 million) with 20% less capital invested. This in turn supported an increase in the cash multiple from 2.6x in 2021 to 3.4x in 2022.

We successfully reduced our capital strain from 6.5% in 2021 to 5.8% in 2022, and maintained our pricing discipline which is evidenced by our delivery of an increased mid-teens IRR and shorter payback of 5.8 years (2021: 8.6 years).

Importantly though, we are not growing in BPA at the expense of our resilience, with a balanced portfolio and low credit risk sensitivity remaining our long-term ambition here.

Fee-based businesses

This comprises our capital-light fee-based businesses of Pensions & Savings, Europe and SunLife.

Pensions & Savings: Workplace

Our Workplace business has delivered an improved level of incremental long-term cash generation at £212 million in the year, an increase of 53% on 2021 (2021: £139 million). This reflects the increased new business we get from retaining our existing corporate customers, through the natural growth from new members joining existing schemes and the impact of wage inflation on contributions. In addition, as part of TCS Diligenta's build out of our Workplace capabilities we have moved to a lower cost per policy, improving our cost efficiency further. This reduces the expenses accounted for in incremental long-term cash generation and is therefore a recurring benefit for all future new business too.

Pensions & Savings: Retail

The 2022 incremental new business long-term cash generation of £37 million from our Retail business has increased by 28% on 2021 (2021: £29 million). This increase has been driven by the move to a lower cost per policy with TCS Diligenta, as with the Workplace business, thereby enhancing cost efficiency here too.

Europe

There was a small decrease in the incremental new business long-term cash generation of our European business to £29 million (2021: £31 million), due to lower margins on new business in 2022.

SunLife

Our incremental long-term cash generation from SunLife of £21 million has decreased year-on-year (2021: £35 million) reflecting the impact of the cost of living crisis on our SunLife customer base leading to lower sales.

Group AUA
Group AUA as at 31 December 2022 was £259.0 billion (2021: £310.4 billion).

The decrease in the period is largely driven by £45.7 billion of adverse market movements, but importantly there is limited impact from these market movements on the fees we earn, as they are hedged, which results in predictable cash generation.

Heritage net flows
UK Heritage net outflows of £9.6 billion (2021: £10.8 billion[1]) reflect policyholder outflows on claims such as maturities and surrenders, net of total premiums received in the period from in-force contracts.

This improvement year-on-year is due to elevated outflows in 2021 relating to one-off challenges following the migration of L&G business to ReAssure. With these challenges all now resolved, outflows are reflective of a more normalised steady-state run-rate.

Retirement Solutions net flows
Net flows in Retirement Solutions, which encompasses our BPA and individual annuity businesses, were £2.3 billion (2021: £3.3 billion). This year-on-year reduction is due to reduced BPA premiums written, as a result of our improved capital efficiency and the impact of higher rates.

Gross inflows during the period were £5.3 billion (2021: £6.3 billion), inclusive of £4.8 billion of new BPA premiums written in the year. This included 12 external transactions accounting for £4.2 billion of premiums and £0.6 billion for the last tranche of the Pearl Pension Scheme buy-in.

Outflows of £3.0 billion in the period (2021: £2.9 billion) primarily reflect the natural run-off of our in-payment annuity policies.

Pensions & Savings: Workplace net flows
Net fund flows within our Workplace business were £2.4 billion in 2022 (2021: £0.2[1] billion), a significant improvement year-on-year. The investment we have made into our proposition and our Standard Life brand has enabled us to improve the retention of our existing schemes to benefit from the embedded growth in Workplace schemes and drive stronger net fund flows in the year.

Gross inflows were £6.2 billion, up 7% on 2021 (£5.8 billion[1]), primarily reflecting increased flows due to annual salary increases.

2022 outflows of £3.8 billion improved on 2021 (£5.6 billion[1]), as we retained more customers with our enhanced proposition and the success of our Standard Life Sustainable Multi-Asset default fund.

Pensions & Savings: Retail net flows
Net fund outflows within our Retail business were £1.4 billion in 2022 (2021: £1.6 billion net outflow), a slight improvement year-on-year.

Gross inflows during the period were slightly reduced on 2021 at £1.7 billion (2021: £1.9 billion) due to lower consolidation into our Self Invested Personal Pension ('SIPP') products.

Importantly, we did see a more significant decrease in outflows of 11% to £3.1 billion (2021: £3.5 billion). This demonstrates that more customers are staying with us as our proposition is improving.

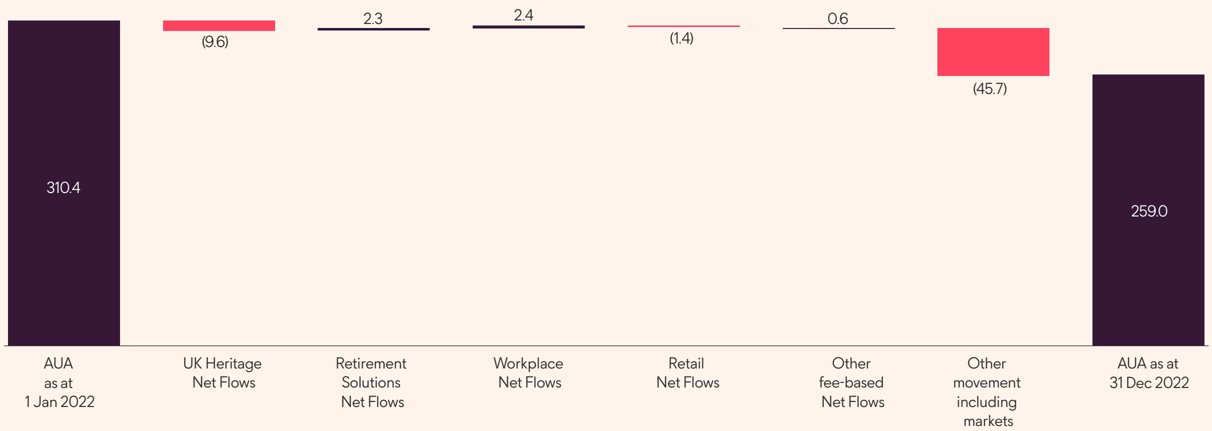
Other fee-based businesses net fund flows
We have seen net fund flows of £0.6 billion in 2022 (2021: £0.8 billion net inflows) from our Europe and SunLife businesses.

Gross inflows were £2.5 billion in the year (2021: £2.8 billion), primarily reflecting our individual retirement products sold in Europe, while outflows of £1.9 billion in the year (2021: £2.0 billion) are largely due to the natural run-off of our European business.

Other movements including markets
AUA decreased by £45.7 billion (2021: £11.6 billion increase) driven by the net adverse impacts of market movements, largely due to rising yields. This impact has been seen across the market, but Phoenix is different to other insurers due to our comprehensive hedging approach which mitigates the impact on our Annual Management Charge, to deliver predictable fee-based revenues and underpin our resilient cash generation.

1. The opening AUA position has been restated for a reclassification of £10.1 billon in respect of the Group's Corporate Trustee Investment Plan ('CTIP') from the Heritage business to the Pensions & Savings: Workplace business, as this product is open for new business. Subsequent flows on the CTIP business in 2022 have been captured within the Pensions & Savings: Workplace business, with 2021 associated flows restated to reflect this reclassification and provide a more accurate reflection of year-on-year comparatives.

Movement in AUA (£bn)



IFRS results

Adjusted operating profit
£1,245m

Fitch leverage ratio
30%

IFRS loss after tax
£(1,762)m

IFRS (loss)/profit is a GAAP measure of financial performance and is reported in our statutory financial statements on page 168 onwards.

Adjusted operating profit is a non-GAAP financial performance measure based on expected long-term investment returns. It is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax.

Please see the APM section on page 314 for further details of this measure.

IFRS profit and loss statement

£m	2022	2021
Heritage	601	537
Open	761	788
Service company	(48)	(24)
Group costs	(69)	(71)
Adjusted operating profit before tax	**1,245**	**1,230**
Investment return variances and economic assumption changes	(2,673)	(1,125)
Amortisation and impairment of intangibles	(522)	(639)
Other non-operating items	(179)	(65)
Finance costs	(199)	(217)
Profit before tax attributable to non-controlling interest	67	128
Loss before tax attributable to owners	**(2,261)**	**(688)**
Tax credit / (charge) attributable to owners	499	(21)
Loss after tax attributable to owners	**(1,762)**	**(709)**

IFRS loss after tax attributable to owners

The Group generated an IFRS loss after tax attributable to owners of £1,762 million (2021: loss of £709 million), which primarily reflects £2,673 million of adverse investment return variances and £522 million of charges for amortisation and impairment of intangibles.

Investment return variances includes net losses as a result of economic movements in the value of assets backing Group employee pension schemes, where they are subject to insurance policies with Group entities. An accounting mismatch arises as the related decrease in the defined benefit pension obligation is recognised in 'Other Comprehensive Income' ('OCI'), which has seen a gain of £686 million in the period that partly offsets the loss.

Basis of adjusted operating profit

Adjusted operating profit is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudent margins and the interest cost of unwinding the discount on the liabilities).

The principal assumptions underlying the calculation of the long-term investment return are set out in note B2.1 to the IFRS consolidated financial statements.

Adjusted operating profit includes the effect of variances in experience for non-economic items, such as mortality and persistency, and the effect of changes in non-economic assumptions. Any impact from market movements is shown outside of adjusted operating profit. Adjusted operating profit is net of policyholder finance charges and policyholder tax.

Adjusted operating profit

The Group has reported an increased adjusted operating profit of £1,245 million for the year (2021: £1,230 million).

Heritage adjusted operating profit

Our Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

Our Heritage segment delivered adjusted operating profit of £601 million (2021: £537 million), which increased year-on-year. This was primarily due to the non-recurrence of adverse one-off assumption changes recognised in 2021.

Open adjusted operating profit

Open adjusted operating profit includes Retirement Solutions, Pensions and Savings, SunLife, and is shown here inclusive of our Europe business segment.

Our Open business delivered an adjusted operating profit of £761 million (2021: £788 million). The reduction compared to the prior year primarily reflects lower new business profit on BPA due to a lower level of premiums.

Service company

The adjusted operating loss from the service company of £48 million (2021: loss of £24 million) comprises income from the life and holding companies in accordance with the respective management services agreements less fees related to the outsourcing of services and other operating costs.

The decrease compared to the prior period reflects additional costs incurred, driven by investment in our growth strategy, including the development of asset management capabilities.

Group costs
Group costs in the period were £69 million (2021: £71 million). They mainly comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes.

Investment return variances and economic assumption changes
Movements in yields, inflation, currency and equity markets are hedged to protect our Solvency II surplus from volatility, but our IFRS balance sheet is, in effect, 'over-hedged'. This is because it does not recognise the additional Solvency II balance sheet items such as certain future profits and the Solvency Capital Requirements (see diagram on page 31). Therefore, the movements in the value of certain hedging instruments offset the market movements in the period, and gives rise to profits or losses in the IFRS results. However, importantly the Group's cash generation and dividend capacity are unaffected by this due to the Group's continued resilient Solvency balance sheet.

As a result, the net adverse investment return variances of £2,673 million (2021: £1,125 million negative) have primarily arisen as a result of rising yields, which has been hedged, and a widening of credit spreads. This includes economic movements on assets within our corporate pension schemes that have been subject to a buy-in. Taking into account the corresponding decrease in our pension scheme liabilities of £940 million, Total Comprehensive Expense for the year was £(1,076)m.

Amortisation and impairment of acquired in-force business and other intangibles
The previously acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. The amortisation and impairment of acquired in-force business during the year of £501 million (2021: £572 million) has decreased year-on-year reflecting the impact of the run-off. Amortisation and impairment of other intangible assets totalled £21 million in the period (2021: £67 million).

Other non-operating items
Other non-operating items totalled a £179 million loss (2021: £65 million loss, inclusive of a £110 million gain on the Standard Life brand acquisition).

This includes £187 million of integration costs related to the strategic decision to re-phase our Standard Life customer & IT migration programme to build out our Open business capabilities on the TCS Diligenta ('TCS') platform. Also included are costs associated with the implementation of IFRS 17, ongoing costs in relation to the ReAssure integration programme, acquisition costs relating to Sun Life of Canada UK, as well as other corporate project costs and other net one-off items.

Finance costs
Finance costs of £199 million (2021: £217 million) reflects the interest paid on the Group debt instruments. The year-on-year reduction reflects the removal of interest on instruments settled in 2021, and therefore no cost incurred this year.

Tax credit attributable to owners
The Group's approach to the management of its tax affairs is set out in its Tax Strategy document that is available on our website.

The Group tax credit for the period attributable to owners is £499 million (2021: £21 million tax charge) based on a loss (after policyholder tax) of £2,261 million (2021: £688 million loss).

The tax credit of £499 million arising on the loss (after policyholder tax) includes a £119 million tax credit arising from the impact of the 25% corporate tax rate effective from 1 April 2023 on deferred tax.

A reconciliation of the tax charge is set out in note C6.4 to the Group financial statements.

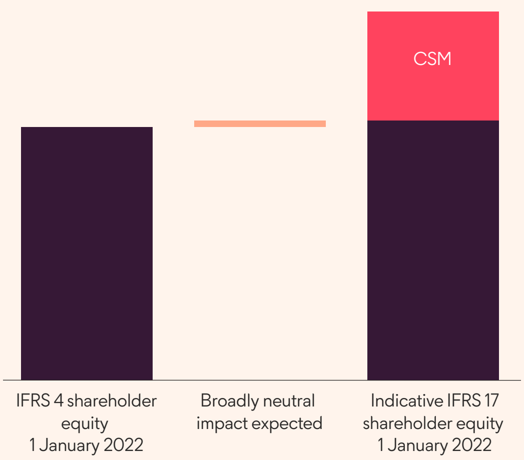
Financial leverage
The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. The financial leverage ratio as at 31 December 2022 is 30% (31 December 2021: 28%).

The increase in leverage year-on-year is predominantly a result of the material adverse investment return variance following significant movements in yields and credit spreads. As markets recover in future periods, we would expect to see positive investment variances to unwind some of this unrealised loss. In turn this will result in a reduction in leverage.

The leverage ratio is currently within our target range of 25% to 30%, and we will continue to monitor our leverage and manage it appropriately.

During July 2022, we repaid a £450 million Tier 3 bond from our own cash resources, which contributed to a reduction in outstanding debt leverage to £4.1 billion at the end of 2022.

Illustrative change in shareholder equity and recognition of CSM



Our business strategy and financial framework are not impacted by IFRS 17

IFRS 17 is a new Financial Reporting Standard that replaces IFRS 4 on accounting for insurance contracts. IFRS 17 is effective from 1 January 2023.

Our strategy of growing our in-force business over time as we support customers journey to and through retirement remains unaffected. Our key metrics continue to focus on cash generation and Solvency II capital resilience, with our dividend paying capacity and long-term coverage remaining unchanged.

We expect the introduction of IFRS 17 to result in a broadly neutral impact on IFRS shareholder equity, with a Contractual Service Margin ('CSM') of at least £2 billion to be established.

Dividend

Total 2022 dividend per share

50.8p

dividend increase in the Final 2022 dividend

+5%

2.5% + 2.5% = 5%

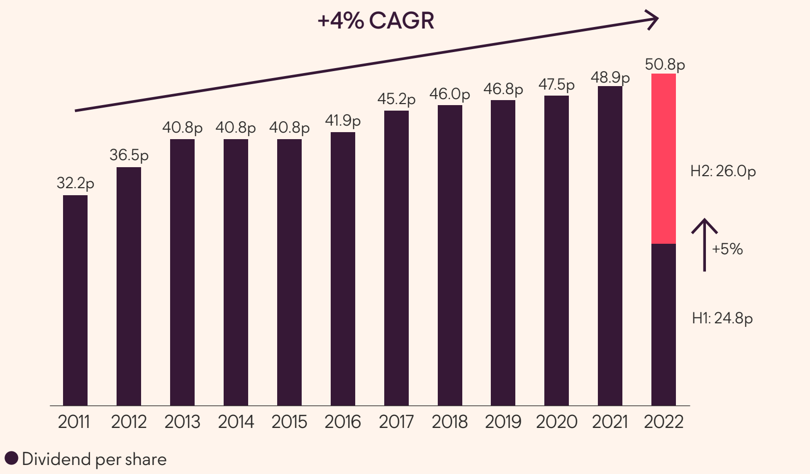
Organic dividend increase reflects our strong strategic and financial performance in 2022

Inorganic dividend increase for the Sun Life of Canada UK acquisition

Final dividend increase effective from, and including, the 2022 Final dividend

Phoenix Group's dividend policy: The Board intends to pay a dividend that is sustainable and grows over time

Strong dividend track record



Organic growth and M&A supports a sustainable dividend increase
Phoenix has demonstrated a strong dividend track record over the past 12 years, with a 4% compound annual growth rate ('CAGR') since 2011.

2021 was pivotal in evolving our dividend story as, for the first time, our dividend increase came from the strong organic performance of our new business. It was a proof of concept that we could deliver dividend increases outside of M&A.

However, we have always been clear that we are focused on delivering dividend growth both organically through our new business, and through M&A. Which is why I am delighted that in 2022 we have achieved both.

Firstly, we announced our first ever cash funded acquisition of Sun Life of Canada UK, which we expect to complete in April 2023. We said on announcement that the Board had proposed a dividend increase of 2.5% for this inorganic growth, funded from the c.£0.5 billion of cash emerging from this business over its lifetime.

In terms of organic growth, we said we were confident we could deliver new business long-term cash generation to more than offset the natural run-off of our business in 2022, and we have.

With a strong strategic and financial performance in 2022 including record new business long-term cash generation of £1.2 billion, we have delivered organic growth that supports a 2.5% organic dividend increase.

As a result, the Board has recommended a dividend increase of 5% in the Final 2022 dividend to 26.0 pence per share, This equates to a Total 2022 dividend of 50.8 pence per share.

Our increased level of dividend remains just as sustainable as it was previously, thanks to the significant levels of cash generation that will emerge from our current in-force business, with £12.1 billion of Group in-force long-term cash that will be available to fund future dividends.

Dividend policy and approach
We operate a dividend policy which is to pay a dividend that is sustainable and grows over time.

It is important to emphasise that the Board will continue to, above all else, prioritise the sustainability of our dividend over the very long term.

We have now demonstrated that Phoenix can grow both organically and through M&A. Therefore, going forward, we will simplify our dividend communication, with the Board announcing any potential annual dividend increase at our full year results, which will combine both organic growth and inorganic M&A growth.

Outlook

Phoenix is a growing, sustainable business

Looking ahead

We are helping people secure a life of possibilities through our clear and differentiated strategy, as we support our customers on their journey to and through retirement.

The scale of the Group's in-force business brings three key competitive advantages of capital efficiency, customer access and cost efficiency. We will leverage these to grow our in-force cash generation over time, both organically and through M&A.

Clear financial targets

We have a clear set of targets as we continue to prioritise the delivery of cash, resilience and growth.

Starting with cash, Phoenix has set two new cash generation targets. The first is a one-year target range for 2023 of £1.3-to-£1.4 billion. The second is a three-year target of £4.1 billion across 2023–2025, which includes the cash emergence from the new business we expect to write in 2023 and 2024, of c.£0.2 billion.

This evolution in how we set our cash targets demonstrates our confidence in our ability to deliver future organic growth.

In terms of resilience, we will continue to maintain a strong SII surplus through our comprehensive hedging approach. This will see us continue to operate within or above our Solvency II SCCR target range of 140%-to-180% and continue to manage our key individual risk sensitivities on a Solvency II surplus basis.

Despite the difficult ongoing economic backdrop and volatile markets, our uniquely resilient Solvency II balance sheet is strongly positioned to enable us to deliver on our ambitions in 2023.

In addition, we will look to manage the Group's gearing level by operating within our Fitch financial leverage ratio target our target range of 25%–30% over the long term.

Turning to growth, Phoenix is now confident of growing its incremental new business long-term cash generation, and has set a new target of £1.5 billion per annum by 2025, which is a 25% increase on the Group's strong 2022 performance.

This new target is expected to comprise c.£1.0 billion from Retirement Solutions and c.£0.5 billion from our Fee-based businesses.

In Retirement Solutions, we will continue our strategy of optimising our capital and returns, by investing c.£300 million of capital per annum into BPA and targeting mid-teens IRRs.

While in our Fee-based Pensions and Savings business, we are investing in our proposition and the Standard Life brand, to support our target for growth in our net fund flows. With an ambition for c.£5 billion of annual net fund flows in our Workplace business by 2025 and c.£2 billion in our Retail business by 2025.

Delivering these new growth targets will enable the Group to generate significant net growth in our £12.1 billion of Group in-force long-term free cash, which can support a dividend that is sustainable and grows over time, in line with our policy.

I look forward to an exciting year in 2023 as we continue to deliver on our purpose and our strategy.

Rakesh Thakrar
Group Chief Financial Officer

2023 targets

Cash

- Deliver £1.3bn–£1.4 billion of cash generation in 2023
- Deliver £4.1 billion of cash generation across 2023–2025

Resilience

- Maintain SII SCCR within or above our 140%–180% target range
- Manage Fitch leverage ratio within our 25%–30% target range

Growth

- Deliver c.£1.5 billion per annum of incremental new business long-term cash generation by 2025
- Complete Sun Life of Canada UK acquisition in April 2023

2025 target

We are confident of growing incremental new business long-term cash generation to £1.5bn per annum in 2025.