

Half year 2025 results presentation transcript

Speakers

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Nicolaos Nicandrou, Group Chief Financial Officer

Jo Roberts, Investor Relations Director

Questions from

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Andrew Sinclair, Bank of America

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Farooq Hanif, J.P. Morgan – via webcast

Progress on our 3-year strategy

Andy Briggs, Group Chief Executive Officer

Thank you, Claire, and good morning everyone, and welcome to Phoenix's 2025 Half Year Results.

Today, I'll start with a summary of the progress we've made. Nic will then take you through the first half financial performance, and I will close with an overview of some of the strategic developments we'll be delivering over the coming months before taking your questions.

Last March, I set out our vision to become the UK's leading retirement savings and income business, helping more people on their journey to and through retirement. Today marks the halfway point of our three-year strategy, and there are three key messages I'd like you to take away.

The first is that we're making strong progress on executing against our strategic priorities. We're meeting more of our customers' needs and driving organic growth.

Second, I'm particularly pleased that this set of results evidences that the balance sheet pivot is beginning to show, so we can confidently say we're on track to deliver all of our financial targets.

And third, what I'm most excited about is that we're uniquely positioned to capture the momentum in our structurally growing markets.

Progress towards achieving our vision is delivered through our strategic priorities of Grow, Optimise and Enhance. We've achieved a number of material strategic milestones already this year.

To Grow, we need the products which meet the needs of our customers and build out our ability to engage with them both directly and through advisors. From an engagement perspective, it's great that we've received approval from the FCA for our in-house advice proposition, which we'll launch later this year. And from a product perspective, we've launched the Standard Life Guaranteed Lifetime Income Fund, completing our full product suite. So we're now able to help customers at every stage of their retirement journey from when they first start saving right into later life.

Within Optimise, we've taken a material step forward on the journey to in-housing the asset management of annuity backing assets that I spoke to you about back in March, and we're currently preparing to in-house a further £20bn, which I'll come on to later.

Lastly, Enhance. Key here is completing the migration of customer administration to modern, technology-enabled platforms. We've migrated a further 0.8 million policies onto the TCS BaNCS platform in the first half.

We also entered into a new strategic partnership with Wipro to manage an additional 1.9 million policies. This delivers an acceleration in our cost savings run rate and increases execution certainty, as we are no longer migrating these policies.

Progress against our strategic priorities is translating directly into attractive financial outcomes.

And hence, our first half performance has been strong across our financial framework of cash, capital, and earnings.

Operating momentum is excellent, with 9% growth in operating cash generation, and 25% growth in IFRS-adjusted operating profit.

And I'm particularly pleased with capital, where our solvency capital coverage ratio grew from 172% at the end of last year to 175% at the half year, even after retiring £200m of debt.

Our leverage ratio improved from 36% to 34%, taking us a step closer to our 30% target.

And we are materially accelerating delivery of our cost savings target.

So, firmly on track across the board.

The UK retirement savings and income market is already huge, with over £3.5tr of stock. It's also structurally growing, driven by a range of demographic and socio-economic trends.

Summarising the grey boxes across the top, there are two themes I'll draw out. Firstly, the structural growth is driven by the ageing population and the shift from defined benefit to defined contribution.

Secondly, people simply are not on track to have saved enough for a decent standard of living in retirement, and most are doing this without any advice or guidance.

We feel passionate about helping everyone achieve financial security in retirement, and it's a huge opportunity for us.

We will continue to advocate for the changes that will make the biggest difference to our customers. So, I'm really encouraged by recent regulatory and political proposals that create additional tailwinds to our industry, as outlined in the orange boxes on the slide. These will accelerate the existing structural growth drivers in the market.

As a top three player in workplace, we're already well in excess of the £25bn minimum threshold requirement for default funds as set out in the Government's Pension Scheme Bill. So, we are ready to take on business from corporates who need a secure provider.

We think the pension adequacy review must raise savings levels through an increase in auto-enrolment contribution rates to help close the pension savings gap. And the introduction of targeted support and pensions dashboard has the potential to be a game-changer for engaging customers and helping them make better financial decisions. We are well positioned to benefit from these structural market drivers.

Turning to slide 8, the top of the slide shows how those market trends are driving substantial flows across the savings and retirement market.

The bottom half of the slide sets out our ambition and strategy, where our business mix is diversified and balanced across the key markets we operate in. We are the only at-scale UK player focused solely on the retirement savings and income market via Workplace, Retail and Annuities. And we're already taking a good share of flows in each, but with plenty of upside potential.

Specifically in Workplace, our ambition is to consolidate our top three position as that market grows strongly and consolidates down.

In Retail, we're looking to move from a top ten to a top five position, and we'll continue to focus on this.

And in Retirement Solutions, we aim to maintain a top five position.

These clear ambitions are underpinned by robust strategies supported by the strength of our franchise, brand, customer base and product set.

Essential to a robust strategy is being crystal clear on how we are well positioned to win share in these growing markets, and this starts with the three competitive advantages of the Group.

Customer engagement is key, and with one in five UK adults being customers of Phoenix, including a large existing workplace book, we have an exceptional level of customer access. This gives us deep customer insights which, in turn, supports how we develop and design propositions.

We also benefit from capital efficiency from our diversified business model, comprising both capital-light fee-based and capital-utilising spread-based businesses. And we have cost advantages underpinned by our scale with 12 million customers, which have been achieved by leveraging technology across our business. This will increase further through our cost savings programme.

These three group advantages then directly translate to the specifics needed in our customer offerings in each market.

Taking Workplace as an example, on the bottom left of the slide, where we're one of the top three players in the market. I regularly meet our employee benefit consultant partners, and they consistently tell me that we win by having excellent customer engagement through offering leading employer propositions, as we truly understand what customers, both employers and their employees, want and need.

Offering excellent service is also key to winning. When I was in Edinburgh at a Workplace pitch last week, it was clear that providing their employees with exceptional service is critical. Our ability to succeed here is underpinned by our strong digital capabilities, which include our market-leading app, rated 4.7 stars on the App Store.

Alongside this, our capital and cost efficiency and inherent scale mean we can offer our products at competitive prices while delivering attractive margins.

Let me now touch on some of the activity the teams have been doing to enable us to keep winning in these markets, from both an engagement and product perspective, starting with Pensions & Savings.

Engagement is key here, and on this slide, I call out the imminent launch of our Retail advice proposition that I mentioned earlier. So, as we start to roll out trusted in-house advice, we'll provide customers with a compelling reason to stay with Standard Life. To be clear, we'll start small here and scale over time.

In partnership with digital engagement specialist, Life Moments, we've launched Family Finance Hub. And Standard Life also completed its connection to the pension dashboard ecosystem, both being examples of ways we've looked to empower our customers and increase engagement with them.

Testament to our commitment to excellent service, we are the first Workplace provider to win the 'Master Trust treble' across the Corporate Advisor, the Pensions Age and the Professional Pensions awards. I'm really proud of the team for this external recognition.

From a financial perspective, our Pensions & Savings business is simple. It's about growing assets, which we've done, and it's about expanding margins, which we've also done. Together, this delivered 20% growth in operating profit.

We've also continued to develop winning products for customers in Retirement Solutions. We launched the Standard Life Guaranteed Lifetime Income plan for advisors on the Fidelity platform in March.

Separately, we've enhanced our BPA offering. Many DB schemes have existing longevity reinsurance, and we've leveraged our extensive expertise to novate these into a BPA transaction. What does this mean? It means we're better placed to win by helping corporates with their broad range of requirements. As proof, this, among other innovations, enabled us to complete our largest ever BPA deal in July, worth £1.9bn. This particular transaction was the in-house scheme of a large employee benefit consultant, so a really positive testament to our proposition.

The other item I'd call out on this slide is the launch of the UK's first fully digital, signature-free application for annuities. As you'll know from your own experiences, having a hassle-free digital experience is increasingly important, so we're always looking at ways to make our customer journeys easier.

Looking at the financials, Nic will come on to the actual annuity volumes in the first half, which were relatively modest, but we've now secured over £3bn of BPAs with individual annuities performing strongly too.

Of course, our focus remains on value, not volume, and our execution here enabled 36% growth in profits.

To optimise customer outcomes and enhance returns, we've been evolving our approach to asset management. Historically, we've had an outsourced operating model for all assets.

For our Pensions & Savings business, which represents the majority of our assets, this strategy is unchanged. Moving forward, we expect to consolidate the number of asset managers we partner with, and Aberdeen continues to be our key asset management strategic partner, potentially attracting a greater share of these assets.

As signalled in March, our strategy for the management of the annuity-backing assets is evolving to one which is predominantly in-house. We will leverage the internal capabilities we have built to manage public credit and private assets, alongside partnering to source differentiated and unique private assets. We're now managing £5bn of our £39bn portfolio in-house and are preparing to in-house a further £20bn.

To be clear, this in-housing only covers our annuity backing assets. We have no intention of becoming a fully-fledged asset manager, nor are we looking to manage third-party assets. But we're excited about the benefits this brings, by underpinning the delivery of management actions in annuity portfolio re-optimisation, and with greater cost efficiency.

Our strategic execution is creating financial flexibility for the future.

This chart focuses on operating cash generation. This is the most important way to look at our financials, because it's the sustainable surplus generation in our life operating companies, that's also remitted as dividends up to the Hold Co. Hence, it's the primary driver of shareholder dividends.

We reiterate our ongoing target of mid-single-digit percentage growth for the full year and going forward.

This level of cash generation not only means that our dividend of circa £550m is well-covered and secure but also generates at least £300m of excess cash per annum, after financing our recurring uses. We will deploy this excess in accordance with our capital allocation framework, with our current focus continuing to be on deleveraging, as we remain laser-focused on achieving our 30% target.

As you would expect, the Board would look to allocate capital to the highest returning opportunity, and we are excited about the optionality our strategy is creating. With that, I'll hand over to Nic who will talk in detail about our financial performance. Nic.

Continued momentum towards our 2026 targets

Nicolaos Nicandrou, Group Chief Financial Officer

Thank you, Andy. Good morning, everyone, and may I extend my own welcome to all of you joining us today.

I am pleased to be reporting strong operational performance in the first half, evidenced by the profitable growth in both our Pension & Savings and our Retirement Solutions operations, by the execution of sizable recurring management actions, and by the acceleration of our cost savings initiatives.

This operational momentum is driving strong value creation, with improvements across all three pillars of our financial framework, with growth in operating cash generation of 9%, growth in net recurring capital generation of 4 percentage points, and growth in IFRS operating profit of 25%.

It is also supporting the emerging balance sheet pivot, with both leverage and overall solvency capital levels improving. This means that we are firmly on track to achieve all of our 2026 targets.

Turning to the financial highlights, operating cash generation grew to £705m, and we delivered total cash generation of £784m.

The shareholder solvency coverage ratio increased to 175%, remaining in the top half of our operating range, and our Solvency II leverage ratio improved to 34%.

IFRS operating profit increased to £451m, and whilst the IFRS loss after tax was £156m, the impact of this loss was cushioned by CSM growth of 10%, with IFRS adjusted shareholders equity closing at £3.4bn.

In line with our policy, the Board declared a 2.6% increase in the interim dividend to 27.35 pence per share.

Let me now take you through these results in more detail.

Operating cash generation, shown on the left, was up 9% to £705m, supported by growth in surplus emergence to £411m, and an increase in recurring management actions to £294m.

I am committed to providing you with the segmental OCG analysis by business and will do so with the full year results. For now, I continue to share an indicative split.

As you can see, the contribution from Retirement Solutions is greatest, given the capital-heavy nature of this business. The contribution from the capital-light Pensions & Savings business is lower, but is growing fast, benefiting from new business flows and cost savings.

On the right, you can see that operating cash generation more than covered our dividends and recurring uses, generating excess cash of £246m in the period. This result has been flattered by the relatively low level of annuity investment in the first half, reflecting timing of BPA deals. At the full year, we expect excess cash to be at least in line with the £0.3bn reported last year.

Turning next to recurring management actions, these represent repeatable sources of value that we deliver year after year across our business.

In any given period, these will vary in quantum between the three categories we first highlighted in March, which are repeated on this slide.

On the left, the largest component relates to Annuity portfolio yield re-optimisation actions, which generated £189m of OCG in the first half. By way of reminder, we capture such opportunities by making frequent small-sized trades through market cycles, which optimise the risk-adjusted return of our portfolio without taking on more risk, whilst remaining duration and cash flow matched.

We delivered £81m of OCG through capital improvement actions, representing a longstanding Phoenix capability of extracting recurring value from model and data improvements, primarily from our capital-heavy business.

On the right, you can see the £24m OCG contribution, from ongoing fund simplification.

In the first half, we closed 65 out of a total of around 5,000 funds, delivering further operational and service fee reductions. This component represents an enduring source of value as we continue to simplify our fund range with further fund closures expected in the second half.

Our half year performance puts us firmly on track to deliver recurring management actions in the order of £500m at the full year, in line with our guidance.

Having delivered £705m of OCG in the first six months, going forward, we expect a more even half-on-half profile compared to 2024, which was second-half weighted, and so we reiterate the mid-single-digit percentage annual OCG growth guidance.

On the right, you can see that total cash generation over the last 18 months of £2.6bn is also tracking towards our £5.1bn cumulative three-year target.

Turning from cash to capital, I set out on this slide the shareholder solvency walk, which I will step through in some detail.

Looking at the two bookends of the chart, you can see that we increased both our solvency surplus to £3.6bn and our solvency coverage ratio to 175% after repaying £200m of debt in February.

In between these bookends, we analyse the various recurring and non-recurring components of the walk and show the corresponding own funds and SCR values in the table below.

You will see that our recurring net capital generation, represented by the items grouped in the top left box of the chart, was positive £0.2bn, equivalent to 4 percentage points of solvency coverage ratio.

The corresponding recurring Own Funds generation, shown in the bottom left box, was also positive £0.2bn, supporting the favourable evolution of our leverage ratio.

The items grouped in the top right box show a net positive generation from non-recurring items of £0.1bn.

Stepping through each component in turn. Other management actions were £0.1bn positive and include benefits arising from two sources – the first relates to the expense savings from in-housing annuity-backing assets, and the second results from selling the shareholders' 10% share of future income in one of our 90/10 funds to the estate of this fund.

We have initiated a programme covering 12 with-profit funds which, over the next two years, will release total surplus of around £150m. There is more detail in the appendix for those who are interested.

Economics and temporary strain were neutral overall. Our hedging strategy delivered as expected, producing a £0.1bn negative, which was offset by the unwind of the annuity temporary strain that we carried over from Full Year 2024.

The investment spend, another component, reflects continued spending on our investment programme, offset by the beneficial impact of the Wipro strategic partnership, which has accelerated the start point from which the lower per policy administration charges apply on the 1.9 million impacted policies.

Before leaving the slide, I would note that the capital improvement in the period is flattered by the timing of BPA deals. By way of illustration, if we had written the same BPA volumes as in the first half of 2024, the coverage ratio would have been around three points lower, reflecting both the day one capital investment and the related temporary strain. Notwithstanding this, the underlying capital improvement in the first half remains strong.

Turning to leverage, we made a clear commitment to bring this ratio down to 30% by the end of 2026. Leverage improved to 34% in the period, supported by the £200m debt repayment and the growth of regulatory-owned funds reflecting the drivers that are covered in the previous slide.

We remain firmly in control of our path to 30%, supported by the £650m of excess cash that we expect to generate over the next 18 months.

As I said before, the path to 30% will not be linear and deleveraging will be managed within the upper half of our 140% to 180% operating range.

Our IFRS adjusted operating profit increased by 25%, with our two main business divisions growing at a strong double-digit rate. I will come back to their respective performances shortly.

The overall increase to £451m is supported by business growth, which has driven our asset base higher and increased both investment contract revenues and insurance contract CSM releases.

It is also supported by a high level of investment margins, reflecting the value added by Phoenix Asset Management, and by cost savings, which I will cover on the next slide.

Our successful delivery of our Grow, Optimise and Enhance strategic initiatives puts us well on track to achieve our £1.1bn operating profit target by Full Year 2026.

Consistent with the comment I made earlier on OCG in-year profile, IFRS operating profit will also be more even first half on second half going forward.

In March, I shared my assessment that our cost savings target of £250m was credible and that I was looking for opportunities to accelerate its delivery. The actions we have taken in the period, namely the introduction of Wipro as a strategic partner for customer administration and other changes to our operating model, have accelerated the delivery profile, with £160m cumulative run rate savings now expected to be achieved by Full Year 2025, some £35m higher than our previous guidance.

At the end of the half, cumulative run rate savings reached £100m, with actions taken in the period adding £37m to the Full Year 2024 total. Some £40m of this run-rate total was earned in the period.

Our cost savings initiatives remain a key underpin to delivering the 2026 operating profit target and to supporting ongoing business margin improvements.

Our Pensions & Savings business continues to grow in assets, profitability, and margins.

As Andy outlined earlier, we continue to win in Workplace with a leading employer proposition, excellent customer service and competitive pricing. This translated into £4.9bn in Workplace gross inflows, including £0.7bn in new scheme wins. You may recall that last year, we won a £0.9bn large scheme, which are relatively infrequent, boosting the prior year comparator.

Excluding new scheme wins, we reported robust growth in gross inflows to £4.2bn, highlighting the Workplace flywheel effect as the combination of strong new business flows in recent periods and low bulk losses expands our overall regular premium base. Our Workplace pipeline is at a very healthy level, reinforcing our optimism of sustained business growth.

Workplace outflows were slightly up year on year, reflecting higher base AUA and the natural attrition from those taking their pensions or porting their Workplace schemes to their new employer.

Moving across the slide to Retail business flows, it is pleasing to see an uptick in gross inflows with outflows stabilising. Positive market effects have more than offset the overall net fund outflows, with average AUA closing up year on year.

Looking at the bottom half of the slide, IFRS operating profit increased 20% to £179m. The improved investment contract result is supported by higher fee revenues from the 5% growth in average AUA and continued cost discipline. Our scale and operating leverage supported an improved operating margin of 19 basis points.

Our Retirement Solutions business also delivered a strong operating performance in the first half. As a reminder, new volumes are not the primary driver of profits here. We run £39bn of annuity assets, so it is the management of this large book of business that drives most of our profitability.

Stepping through the slide, starting in the top left, BPA volumes were £0.3bn in the first half, reflecting market factors and our selective participation. We have since completed a £1.9bn deal and we are at an exclusive stage for deals totalling £1bn. So, at £3.2bn year to date, our BPA volumes are robust.

In Individual Annuities, new premiums grew by 20% to £0.6bn with our market share rising to 13%.

In the bottom right, you can see that operating profit increased strongly in the period, up 36% to £286m. The improvement is supported by higher CSM releases reflecting growing business scale, higher investment margins reflecting the value add by Phoenix Asset Management and ongoing operational leverage.

We have maintained pricing discipline, with business incepted at a similar level of strain to last year of around 3% generating mid-team IRRs.

We remain committed to deploying up to £200m of capital this year, provided we secure sufficiently attractive returns.

The 10% increase in our store of insurance contract value recorded in the CSM represents another key underpin to our future operating profitability. This increase reflects ongoing contributions from the usual sources as well as a sizable contribution in this period from strategic projects, namely the expense savings benefit from in-housing annuity-backing assets and the impact of the Wipro strategic partnership on associated contracts.

Completing the IFRS picture, this next slide shows the first half movement in IFRS adjusted shareholders equity. Our higher operating profitability means that we continue to close the gap between recurring sources and uses being negative £36m in the period compared to negative £139m last year.

Non-operating expenses reduced to £184m, reflecting the tapering of our planned investment spend.

We reported adverse economic variances of £275m, driven primarily by the negative marks on equity hedges following a 7% rise in markets. As I illustrated back in March, this is a known consequence of our hedging strategy which protects cash and solvency capital but gives rise to an accounting mismatch under IFRS. The slide which accompanied the explanations provided in March is included in the Appendix.

Actions such as the With Profits initiative to sell £0.7bn of future shareholder transfers to the estate will reduce our overall equity risk exposure, allowing us to shrink the size of the equity hedging programme by around 10%.

On the right of the chart, you will see that we closed the period with an adjusted shareholders' equity of £3.4bn.

Before leaving this slide, I reiterate that our aim is for IFRS shareholders equity, ex-economics, to grow from 2027.

Moving next to dividend, Phoenix is a highly cash-generative business. We have a strong track record of consistent dividend growth and operate a sustainable and progressive dividend policy.

I outlined in March the financial metrics that the Board considers when undertaking the annual dividend assessment. These are repeated on this slide, being namely OCG, the solvency coverage ratio and the parent company distributable reserves, all of which remain healthy.

Consistent with previous guidance, the Board continues to consider that the Group's consolidated IFRS shareholders' equity does not give rise to any practical limitations to dividend payments.

To conclude, we have made positive progress at the midpoint of our three-year strategy, and we have increased execution certainty across all of our 2026 financial framework targets.

We have positioned the business to generate mid-single-digit-percentage annual OCG growth, producing a level of OCG which more than covers our recurring uses and delivers excess cash of £300m or more per annum.

We're on track to reduce our leverage ratio to 30% by 2026, with all the levers required to achieving this being firmly within our control.

Finally, supported by the acceleration of our cost saving plans, we are on track to deliver £1.1bn of IFRS operating profit in 2026, enabling us to cover our recurring uses on this reporting basis as well.

Thank you for your attention. I will now hand you back to Andy.

Looking ahead

Andy Briggs, Group Chief Executive Officer

Thank you, Nic.

Our vision is simple, to become the UK's leading retirement savings and income business, serving customers at all stages of their life cycle from 18 to 80+. And we're making great progress.

We have built leading propositions across our Pensions & Savings and Retirement Solutions businesses and enhanced our asset management capabilities. Our focus will now turn to further building out our customer engagement tools, which will be enhanced by our increasingly digitally enabled customer interface, shown in the lighter purple. Our strategic priorities are clear, and we're excited about what comes next.

Looking forward, we expect the second half of 2025 to be just as busy as the first as we continue to execute against our strategic priorities.

For Grow, while we'll continue to consolidate our excellent position in Workplace and Annuities, the focus of our investment is in Retail as we build out our capabilities. Priorities here are engaging our customers, so I'm particularly excited about the imminent launch of our Retail advice proposition, also connecting our full range of products into key platforms, and so the launch of our Smooth Managed Fund on the Quilter platform, one of the largest in the market, is a key step forward to reach more customers.

For Optimise, we will progress our shift to in-housing annuity-backing assets.

And for Enhance, by the end of the year, 75% of policies will be on their end-state platform.

Today, we're announcing our intention to change our Group name from Phoenix to Standard Life PLC in March 2026.

Our move to Standard Life brings our most trusted brand to the forefront and demonstrates our commitment to helping customers secure a better retirement. It's a brand known to all of you and the brand we are already using for new business in the Pensions & Savings and Retirement Solutions markets.

The move aligns our brand strategy with our Group strategy, supporting our focus on organic growth. It unifies our colleagues and strengthens our employer brand, and it simplifies our business, reducing duplication and cost.

In summary, we are successfully executing on our vision to be the UK's leading retirement savings and income business.

Let me recap the three key messages.

I'm delighted with the progress we're making against our strategic priorities. I'm pleased that the balance sheet pivot is beginning to emerge, and I'm optimistic about the future. Delivery on our strategy is enabling us to meet more customer needs and, in turn, deliver strong shareholder returns. So, with that, let us move to questions.

Q&A

Andy Briggs, Group Chief Executive Officer

So, we'll start with questions from the audience in the room. If you can raise your hand, if you have a question and we'll direct one of the roaming microphones to you. Please, you can start by introducing yourself and the institution you represent.

For anyone watching on the webcast, please use the Q&A facility and we'll come to your questions after we've answered those in the room.

So, shall we start with Abid there?

Abid Hussain, Panmure Liberum

Good morning.

Andy Briggs, Group Chief Executive Officer

I hope it's three questions first, yeah?

Abid Hussain, Panmure Liberum

It is three questions.

Andy Briggs, Group Chief Executive Officer

Perfect.

Abid Hussain, Panmure Liberum

Morning, everyone. So three questions. The first one is on your Own Funds. You're making a number of investments across the business now and margins are moving in the right direction. So, when do you expect the Own Funds to start increasing? That's the first question.

And the second one is on your dynamic hedging. Can you give us an update on your plans to reduce the over-hedged nature of the Solvency II balance sheet or, as I see it, the over-hedged nature of that Solvency II balance sheet? I think you previously said you were going to move to a more dynamic approach on that, so any update, please?

The third question is on margins across the Pensions & Savings business. Where do you think those margins might settle down to? It's good to see the operational leverage coming through, but I suspect that there's an element of over earning, so just sort of any

guidance on that. And just a sub part to that, if I can, just very quickly, can you give us any colour on where the Workplace savings margins might be? Thank you.

Andy Briggs, Group Chief Executive Officer

Sure, so I'll take the first and third of those and Nic will take the second. So, on Own Funds, so unrestricted Tier One Own Funds, the Own Funds excluding the debt, did grow from 4.2 to 4.4. But obviously, what we're then doing is paying down debt to reduce the leverage ratio.

So, we had £0.2bn growth in the recurring Own Funds, and then the non-recurring, basically the one-off management actions, covered the costs of the investment. So, that was neutral on Own Funds, and so very pleased with that progress, and that's a key focus for us.

So, I know there's a lot of focus on shareholder equity, but the point of the hedging is to protect that Own Funds growth and the solvency surplus, which protects the dividend in due course. So, we want to keep momentum in growing that Own Funds going forward, as we've shown in the first half.

In terms of Pensions & Savings and margins there, so you saw the margin increase from 17 basis points to 19 basis points. The revenue margin was broadly flat, and the revenue was up by 5% because the average AUA was up by 5%, and that was coupled with reducing costs, which led to the growth in the margin.

Probably the guidance I'd just reiterate is, back in March, we talked about over half of the growth from 2024 to 2026 in operating profit would come in Pensions & Savings. That basically implies Pensions & Savings will hit around £450m of operating profit next year. If you work that through, that'll be a margin getting into the – sort of low 20 basis points.

And I think what we'd expect to do over time is you would see a gradual slow decline in the revenue margin, but ultimately, we'd want to hold the costs – you know broadly flat and absorb inflation and, therefore, you continue to get the benefits of operating leverage.

We don't disclose the margin split between the different areas in any detail, but broadly speaking, Workplace would be typically high 20s, would be the sort of revenue margin there, and that's what's leading to the sort of slight decline, but only marginal decline in the overall revenue margin of 46 basis points in the first half. Nic, do you want to take the hedging question?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah. Will do, Andy. Morning, Abid. So, we hedge around 80% of the equity risk. That's where we are. And the way we think about this is that, if you like, that relates to the equity exposure of the legacy book, which is in runoff. And we, therefore, don't hedge the new business that we write.

That 80% will gradually taper over time as the legacy book runs off. Clearly, six months on from when I updated you, there's been minimal movement in that. But the initiative to effectively neutralise our shareholders' transfer will have an impact. As I said, that's £700m of future shareholder transfers. There is substantial equity risk associated with that. And as we deliver that programme, we will see a 10% reduction in the notional.

The programme is across 12 out of our 22 With Profit funds. Those 12 funds are 90/10 funds with very strong estates. The customers want to take more risk, but we don't want to do that, hence the transactions that we're putting in place. Three of those With-Profit funds will be completed by the end of the year, another seven next year, and the final two in 2028. And the benefits, whether it's the £150m of extra surplus that that will generate, or whether it's the 10% reduction in the hedging, will come through around 50% this year, 30% next year and 20% in 2027.

So gradual decline, sort of to summarise, gradual decline as the legacy book runs off, and then we'll take 10 points off that, 5 this year, 3 next year and 2 the year after.

Andy Briggs, Group Chief Executive Officer

Shall we go along to Andy?

Andrew Sinclair, Bank of America

Thanks, and great to see the Standard Life brand coming back to the fore. Three for me, please. First, just on the operating profit balance, H1 versus H2. Just trying to get a little bit more colour on that comment. I guess I'd have thought Pensions & Savings stronger in H2 with higher AUM, Retirement I'd have thought about flattish, and that's before the cost savings coming through. So, should we still be expecting H on H growth, H2 on H1, and just a little bit more colour on that, please?

Second was actually on IFRS non-operating on the amortisation of intangibles. I think the guide for that has typically been down about 8% a year, but it dropped, I think, 16% last year and it's, I think, 11% year on year in H1. Clearly helpful to have that non-operating drag kind of dropping away. Is there any reason why that's going faster and how should we think about that? Should we still think about 8% or should we think about going faster?

And then just third was just on those With-Profit transactions you're mentioning, as I understand it, for the equity hedging, one of the positives is when equity markets go up, yes, you lose on the short term from the hedging, but you gain that back with higher fees, etc, over time. Where are we seeing that IFRS kind of unwind from that hedging coming through at the moment? Is there anything that's coming through, maybe in H2 as kind of a one-off coming through there? And does that change the sensitivities as well? Are the sensitivities already updated? Thanks.

Andy Briggs, Group Chief Executive Officer

I'm going to let Nic do all three of those, but while he's just thinking of those, if you didn't know, Andy started his career at Standard Life in Edinburgh, and hence the reference to brand. He's feeling good about it. So, Nic?

Nicolaos Nicandrou, Group Chief Financial Officer

Well, I didn't mean to imply that H2 is going to be exactly the same as H1. Inevitably, there will be, you know there will be factors that shift that. Clearly, the higher CSM base should benefit the second half in the same way as it's done this year. We'll see what the AUA does on the on the investment contracts.

Cost savings, yes, we'd expect more to emerge in the second half, but compared to what we saw last year, both in relation to OCG and IFRS, you should see a much more balanced. It was 45/55. You know that's not the shape we're going to have going forward.

Amortisation of intangibles, there has been an acceleration if you look in the recent past. That's merely a reflection of some of these books running off completely. So, it's great to see that we are on a tapering path for that. And actually, that's also true in relation to interest costs. It's also true in relation to the, if you like, non-operating investment spend. All of this, very helpful as we seek to get to 2026 and cover all our recurring uses in 2027 to cover all uses except the hedge-related volatility.

I mean, on equity, I think you answered the question that there is a mark to market. The benefit will come through higher charges going forward. There's been no discernible change in the equity strategy or approach. So, I wouldn't expect to see anything different in the second half compared to what we've seen in the first, unless I've misunderstood your question.

Andrew Sinclair, Bank of America

I was more just asking for the With Profits transactions that you're doing. I can understand it reduces the equity hedging going forward, but are you giving away some of that benefit of expecting, in the future, to get those higher charges through? Just kind of interested to know a little bit more in terms of the colour of those kinds of economics.

Nicolaos Nicandrou, Group Chief Financial Officer

So, the impact on IFRS, of the With Profits programme, will be second order. I mean, before, we used to get effectively 10% of the increase in asset share come through, that was hedged. So, we didn't, you know, if you like, the risk-weighted contribution to the result was modest.

As we go forward, that will be replaced effectively by an investment return on whatever it is that we invest the proceeds in. So, the impact will be second order.

Andrew Sinclair, Bank of America

Understood, thank you very much.

Mandeep Jagpal, RBC Capital Markets

Hey, good morning. Three for me as well, please. First one on management actions. You plan on bringing a further £20bn of annuity assets in-house. Just to clarify, are the potential expense savings that you mentioned already included in your non-recurring management action guidance? And then, it also supports the delivery of recurring management actions, so is that already included in your £500m per annum guidance or could there be upside to both these targets quite soon?

And then a just quick follow-up question on the hedging, how should we think about the impact of the hedges to the With Profits with respect to the SCR? So, trying to understand if we should expect the increase in market exposure to increase the SCR potentially.

And then finally, you highlighted the Pensions Adequacy Review as the tailwind. What does Phoenix think the contribution rate should eventually get to to make pensions adequate, and how long do you think it would take to get there in the UK?

Andy Briggs, Group Chief Executive Officer

Thanks, Mandeep. So, I'll take the first and third and ask Nic to take the second.

So, in terms of the £20bn in housing annuities, so the two benefits of that, one is more cost-efficient, and that is one of the drivers of the non-operating Own Funds growth that we showed, and I talked about to Abid a moment ago, so that's taken through there.

It also, by having the assets in-house ourselves with our own people, it is favourable in terms of the annuity re-optimisation portfolio actions that we undertake. You know, we're not increasing the guidance from the £500m per annum, but it's going to be easier to get there now, effectively, yeah. So, it puts us in a strong position.

In terms of the contribution rate, so we have a think tank. It was called Phoenix Insights. It's rebranded to the Standard Life Centre for Future Retirement – a bit of a clue of the direction of travel for the Group. We did that earlier this year. And we did a piece of independent research work there, and the proposal that came out of that was that we should look to increase the auto-enrolment contribution rate from 8% to 12%, so that was the kind of independent research.

Just giving you a kind of sense of this from a couple of perspectives. So, although the minimum rate in the UK is 8%, the average savings rate is 10%. In Canada, the average saving rate is 20%, to give you a sense of where UK consumers are heading compared to Canadian counterparts. Of that 8% in the UK, the employer contribution is 3%. Australia's just increasing their employer contribution to 12%. So, this is why we're calling this out you know very loudly. You know it's not going to be that visible, because

people retiring today still have significant defined benefit pensions, but in 10, 20 years' time, we are heading for real impoverished retirements.

Now, the bit that's interesting in all of this is you know our market's huge, £3.5 trillion. It's already growing really strongly, as you can see from the fund flows I had on slide 8, but if we address this under provision, it's going to grow even faster still, and that's what we're advocating for and driving for. Nic, do you want to take the second question?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah, okay, on the With Profits. So, just to add some more numbers and some more detail, if I may. So, these funds, there's about £700m of shareholders' interest in future transfers, and that £700m is on the solvency balance sheet. In addition to that, there's about £200m of shareholders' interest in the estate. The Solvency rules don't allow us to take credit for that £200m. So, in making this transaction, albeit it's a small discount to the values that I've just quoted, we get to recognise the £200m shareholders' interest in the estate, hence why there is an impact on solvency.

Now, that £700m was subject to a whole host of risks. Yes, there was equity risk and interest rate risk, but that was hedged, so very modest SCR in relation to that, but there's credit risk associated with the investments that are backing up. There is expense overruns risk. There's mass lapse risk. So, there was an SCR associated with those, and clearly, as we complete those transactions, that SCR falls away. If it's replaced by cash, we won't hold any risk capital in relation to that. So, the benefits come through recognising the shareholders' interest in the estate and removing the SCR.

Andy Briggs, Group Chief Executive Officer

I think, just a couple of quick comments on this. This is a sensible simplification. So, in the shoes of a customer, historically in these funds, basically there was this concept of you're sharing the profits 90/10 between the customer and the shareholder. It's not the easiest concept for your average consumer to get your head around. Where we're effectively going to by doing this is we're making the With-Profit funds kind of mutual With-Profit funds. So, the customer gets the smoothing, but it's just the same as any other fund they can invest in. There will be an annual management charge, and our revenue is charged less expenses than, the same it is on the unit link business. So, it's a much simpler customer proposition.

It also is beneficial financially. It reduces the equity hedging risk. It adds own funds, so it's beneficial, but I wouldn't overplay it. In all the things we're talking about today, this is quite a small part of the picture of the value creation of the Group, yeah. Dom?

Dominic O'Mahony, BNP Paribas Exane

Thanks very much. I've also got three, if that's all right. The first is just on the in-housing of the assets. Great to see the benefit across all the financial metrics on that. Is there more you can do? Clearly, that's about, you know, it's now just over the majority of the annuity book, but is there anything to stop you doing the rest? And on the, you were very clear in saying that you're not trying to become a third-party asset manager, but, on the With-Profits book in particular, I guess you have quite a lot of discretion about how you manage that. Is there anything you could do to in-house any of that?

Second question was just on the excess cash bill, which is very pleasing, clearly. In terms of deployment, page 13 runs through the way you're thinking, and it's very helpful. Would you feel that you would have to get above the 180% solvency ratio before deploying that into, say, additional capital returns beyond your existing deleveraging programme or, indeed, to shareholders? And more broadly, what would be your priorities for using excess cash beyond this, beyond the deleveraging plan?

And then the third question, the bond yield curve has moved in an interesting way since the end of the half. It moves every day, of course, but I think there's been some steepening. My guess is that your fixed income duration is quite long. Should we be focusing more on the 30-year or the 10-year when we think about the various impacts on your balance sheet? Thank you.

Andy Briggs, Group Chief Executive Officer

Thanks, Dom. So I'll take the first two and ask Nic to take the third.

So, in terms of the in-housing of assets, so we have £39bn of annuity-backing assets. We have 5 already in-house and, today, we're announcing the plan to in-house a further 20. So, there is a bit more that we could go after in due course, but I wouldn't envisage we end up with all of the assets in-house because we'll do public credit in-house, derivatives and so on, we'll do some private debt in-house, but we'll also continue to partner with third parties that can get us access to particular differentiated private credit that we couldn't get directly ourselves. So, it wouldn't be the whole £39bn in due course.

In terms of With Profits, no plan to change our current approach there. So view that the same as the Pensions & Savings side where we are determining the right strategic asset allocation, we're partnering with external asset managers that have real expertise in different sectors, but we will continue to partner and outsource those assets.

In terms of excess cashflow, so as we said, you know we're, once again, reiterating that we will have at least £300m per annum of excess cash. That's significant. We're paying a dividend of £550m and then, on top of that, after all recurring uses, we have £300m of excess cash. So, it shows the strong, solid cash generation.

The great thing about Phoenix is, because of the approach we take to hedging, you're going to get that money because you know the solvency balance sheet is protected, and that's why we hedge in the way we do so that that money comes out.

In terms of how we're using it, the priority at the moment is using it to de-lever. We believe that's the highest return on capital, and, in many ways, you can kind of see that in terms of our share price performance. The market implied WACC has come down, and it's increased the intrinsic value by the most amount, if you like. So, that seems to us to be proving to be the right call.

What we'll basically then do, once we get the leverage down to 30%, is we will allocate the excess cash against the highest return opportunity using our capital allocation framework. So, historically, we've illustrated that could be investment in organic growth, it could be considering M&A, it could be further deleveraging beyond the 30% level, or it could be further capital returns, share buybacks. We'll make a call. The Board will make a call at the time based on what would be the highest return on capital for shareholders of how we deploy that excess capital. I wouldn't see that we would need to be north of 180% to do that. We have a target range of 140% to 180%. We would rather be in the top half of that target range so that, in the event of real extreme shocks, we're still above the bottom, although, obviously, our balance sheet is much less sensitive to market movements than our peers for the reasons I've said. So, it wouldn't need to be above 180% to deploy excess cash, as indeed, we're not above 180% at the moment, and we're deploying the excess cash against deleveraging.

Nicolaos Nicandrou, Group Chief Financial Officer

And indeed we're deploying the excess cash to Grow, Optimise and Enhance, so the deployment is happening.

On your question on duration, I mean it's less a question of choice. We have to hedge in line with the duration of our annuity liabilities. You know at the moment, we hedge the one in 200 cash flows, and that takes us somewhere in the 15 to 17-year point. So, our hedging programme kind of reflects the length, if you like, or the tenure of those liabilities on a one in 200.

And yes the impact that we've seen on our Solvency balance sheet of the rate movements since the Half Year, indeed, equity markets and some of the other, is de minimis, both at the Own Fund level and at the surplus level. So, hedging is delivering exactly what it's designed to do, which is to provide stability to our balance sheet, to our solvency balance sheet, and, in doing so, underpin the progressive dividend policy.

Andy Briggs, Group Chief Executive Officer

Andrew, and then we'll come from Andrew to Nasib, yeah.

Andrew Baker, Goldman Sachs

Great, thank you. Thanks for taking my questions. I'll go three as well, if that's okay.

You just mentioned de minimis impact in the second half on solvency balance sheet. What would that be on the IFRS equity side, if that's okay?

And then secondly, we've seen quite a bit of M&A recently in the UK bulk annuity space. Do you expect this to have any impact on your ability to deploy the £200m of capital that you have in your plans at attractive margins?

And finally, is there anything you're able to say on the life insurance stress test later in the year and what we should be expecting there? That would be really helpful. Thank you.

Andy Briggs, Group Chief Executive Officer

Okay, I'll let Nic do one and three, and I'm happy to pick up the second one on the M&A and the BPA market.

So, I think there's three things I'd say. The first is, it's actually you know quite good, isn't it, that all this capital wants to come into the UK savings and retirement market. It shows it's a really attractive market. The market's growing strongly, the margins are attractive, the profit pools are attractive, and people are prepared to pay a lot of money to get in and be part of it. I'd say that's a real strong endorsement of the market.

I mean, in terms of ourselves, we feel in a good position competitively. We're far more diversified than many of our competitors. So, we have a capital efficiency advantage because we've got a much more diversified overall business mix.

So, we find we can compete well in the market currently, and we're well-placed to compete well. The Standard Life brand lands really positively in this market. But we also have a whole host of developments that we're undertaking to continue to evolve our competitive position.

So, the in-housing of assets is really helpful that we're announcing today. We continue to look to partner with external asset managers that have unique differentiated private asset capabilities. That's a key focus for us. And I'm also really pleased with the build-out of individual annuities. So, our individual annuities grew 20% first half on first half. That took our market share up from 11% to 13%. And obviously a lot of this external capital coming in is going to focus on BPA rather than individual annuity.

So, all in all, I'll be confident that, over time, we'll be able to deploy our £200m of capital. Yes, we are, but we will be disciplined, and we will not deploy the capital if we can't get attractive returns. We're focused on returns. The beauty, for us, of having a very diversified business mix is we can afford to then be disciplined and focused in what we're doing. Nic, do you want to take the other two?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah, happy to. Maybe just to add an addendum to your answer. The 3% strain datapoint that I gave earlier and the mid-teens IRR, those relate to, effectively, the year-to-date £3.2bn of BPAs that we've written and the £600m of the individual annuities at the first half. So, if you like, you know it's an updated, it's a current number.

Let me take LIST because that will be quick. Yes, like everyone else, we submitted our stress test results in relation to Phoenix Life Limited. The PRA will publish information later this year, sometime in early Q4, on the industry impacts and specific impacts. Nothing to say at this point. And we can have a conversation at the point that those are published.

On the impact of market movements, I'll answer the question on IFRS, but if you permit me, let me explain to you why I regard that as noise.

So for as long as we continue to grow our OCG, to cover our uses, for as long as we have a very healthy solvency base and for as long as we are increasing our IFRS operating profits so that it can cover the recurring uses, as long as we're doing that appropriately then I am unconcerned about the hedge-related volatility that comes through IFRS. And why is that? As we have explained before, and as it's set out on slide 44 in the Appendix, the hedging is giving us the stability to the solvency balance sheet. You can see that, this time around, you can see that going back. But the offsets, the IFRS balance sheet doesn't cover all the components that we hedge. So, it's a mismatch and it's noise.

What matters, as I said, when it comes to dividend, is the distributable reserves that we have in PLC. There were £5.6bn at the end of Full Year 2024. At the half-year point, they've increased to £5.7bn. What's feeding that are remittances from the life subsidiaries. We've just filed accounts for the life subsidiaries. They showed that, in 2024, we made £500m of profit and the hedging resides within these life companies. £500m of profits, their distributable reserves going up to £1.8bn. In the first six months of this year, the UK life subsidiaries made another £400m of UK GAAP profit after absorbing, again, the hedge-related impacts. Why? UK GAAP is the same economic basis of reporting as we see in Solvency II, and therefore, the numbers are exceedingly healthy. That's why we're confident that there are no practical implications to that, you know that hedge-related noise that is coming through the IFRS.

Again, I'll repeat what I said a minute ago, on the solvency balance sheet, de minimis impacts, both on Own Funds and in relation to the solvency. The accounting noise, if you like, since the half year is adverse £150m.

Andy Briggs, Group Chief Executive Officer

Nasib?

Nasib Ahmed, UBS

Thanks. Three questions for me as well. Firstly, on the Retail business. You say you're trying to get from top 10 to top 5. What does that mean in terms of flows? Do you reduce the £7bn of outflows or do you increase the £2.5bn of inflows in that business as well? If you can kind of give us some update on, I think you had targets for the end of this year. It seems like they're not going to be met, but maybe next couple of years, where do you see the net inflow on that Retail business going to?

Second question on M&A. It seems like, yeah, I mean, you've been pretty clear it's not a focus, or not as big a focus anymore, but there was a deal done by HSBC Life. What was the reason for not going for that one? Was it just the new business proposition was not aligned to where you guys are? And then on disposals as well, Europe and Sun Life over 50s, where is your thinking around disposals of those two businesses?

And then, finally, on leverage, Nic, you say it's not going to be linear, but it seems like, if you retired the Tier 2 this year and the Tier 3 next year you're kind of there. Why would you not do that? Why is it not linear?

Andy Briggs, Group Chief Executive Officer

Okay, so I'll take the first three and let Nic take the fourth.

So, on the Retail side, the answer to your question, basically top 10 to top 5 is roughly going from £5bn of inflows to £10bn of inflows to give you a kind of sense of it, yeah. Key focus for us, we very consciously went about this strategic pivot to organic growth by looking at the three markets in a logical order. We started with BPA, then Workplace, we're now turning our attention much more to Retail.

The reason we did the first two first is that, in those, you've got a small number of you know expert buyers in the employee benefit consultants and corporates, so you can get to them quite quickly, and we've successfully done that and that those businesses are performing very strongly indeed.

Retail will take more time because we're trying to get to literally millions of customers and thousands of individual advisors, so it is going to take more time, but we are confident we're on that journey. We're confident we've got structural advantages to get there.

I think the other thing I would say as well, just when you look at our overall business, roughly half of our outflows are actually customers taking their income in retirement. That's what we're here to do. That's our whole purpose in life. So, that half goes with a big smile on our face and our hands clapping. We're delighted we're helping. You know we're the kind of £14bn payroll of UK, you know UK retirees, yeah. I mean, that's what we're here to do. So, we really focus on the other half that is transferring elsewhere. That's the particular focus on the outflow side.

So, in terms of M&A, what I'd say is M&A remains something that we would absolutely consider. What's great for us now is that we're delivering strong organic growth. So, we no longer have to do M&A, it becomes a choice.

We are still the first port of call for anyone considering looking at M&A. We still see M&A as the opportunity to create value, build scale, but what we're doing is we're basically allocating our capital. We now have far more choices where we can allocate. We're allocating our capital where we can get the highest returns on that capital. So, I'm not going to comment on any specific deal, obviously, but rest assured, any M&A going on, we would get the call, and we would look at it and we would think about it compared to alternative returns on capital and other sources and we would deploy against the highest value returns.

In terms of potential disposals, so, on Sun Life, you may recall we considered potentially selling that last year and then the FCA came up with their protection market review. Not an issue for us specifically, but when we were trying to sell the distribution arm and one of the key focuses was on commission rates between the manufacturing arm and the distribution arm, we owned both, so we're agnostic as to what that is internally. That basically became an issue. We got a great team of people there in Sun Life. They're doing a great job. I'm going to let them get on with it, yeah. I'm not going to disrupt them again, if you like.

In terms of Europe, you mentioned that as well. So, what we've said on Europe is that we have a number of things that we need to do to that business which are the right things to do to it organically. We need to get it onto more modern technology. We need to get a partial internal model in place. Those initiatives are still in train and will run for another period of time, and they're the right things to do for that business organically for the future but also would create greater optionality as well in a number of dimensions. Nic, do you want to pick up on leverage?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah, on leverage, really to reiterate the comments that I made in my prepared remarks that we have all the levers to be able to get to 30%. You know what did I mean by that? Well, clearly, we have the recurring capital generation, sizable enough to more than cover the recurring uses. So, so we can finance it and then, yes, we have the instruments that are coming up that fit within the kind of the timing, the timeframe that is covered by our target.

Andy Briggs, Group Chief Executive Officer

But the bottom line there, Nasib, is, if we keep growing Own Funds, we won't need to take out all of the debt coming up over the next 12 months to get to the target, yeah? And so the point is we may choose to refinance some of that potentially and still get to the target if we keep growing Own Funds. That's the point, if we want to refinance some. We may or may not, it's a decision we'll make nearer the time. Andrew, you've been just very quiet so far.

Andrew Crean, Autonomous

Okay, I've got 10 questions! No. I was just going to ask, on the Pensions & Savings business, and particularly the savings, element of it, could you split down the net flows in the Retail bit between the old-fashioned individual unit-linked and the new Retail? And perhaps give some sense, in Pensions & Savings, as to the split of the profits between those three elements within that, because you have one legacy business within that?

Andy Briggs, Group Chief Executive Officer

Sorry, say that second bit again.

Andrew Crean, Autonomous

And then give us some sense of the legacy profits within the Pensions & Savings business.

And then secondly, you were talking about Europe, need for more modern technology and a partial internal model. When will you have completed that and, therefore, can look at your options?

Andy Briggs, Group Chief Executive Officer

Sure, so on Pensions & Savings, if you look at the sort of annualised Retail inflow of around £5bn that we have gross flows, roughly half of that is regular premiums on existing customers. So, all the Workplace leavers, for example, end up in Retail and the other half is effectively transfers in, so lump sums. So, if you want to draw the distinction, roughly half is regulars, roughly half is transfers in.

In terms of breaking down the profits between the different segments, it's not something we do, Andrew, and I do hear that people want more and it's something we will give some thought to in time. But the point I'd draw is that an awful lot of the costs of being in this business are fixed, and, therefore, the marginal revenue, fund flow you generate, generates significant marginal value, and that's exactly what we're seeing. So, our margin at 19 basis points is materially higher than our other main-listed peers, materially higher, and it's not actually that we're much better, it's that we just have more scale.

And so if you try and do the cost allocation down, you've got a large, fixed cost of being in this business, the systems and processes and so on involved, that you'd be allocating around. So the point I'd really draw to is, going forward from here, we would expect, you know obviously, there'll be a runoff of revenue, think about the revenue line and the cost line separately, there will be a runoff of revenue over time as customers take their income in retirement, we'll have all the new flows coming in and we kind of give a bit of a sense of the revenue margin – the average is 46. Workplace is down in the high 20s – so you can get a bit of a sense of that. And then in terms of the cost base, the cost base is going to continue to come down in line with our £250m cost reduction.

So, in trying to model the picture going forward, I'd encourage you to split the revenue and the cost side out. There's a trajectory of cost that I think is sort of clearly defined by our cost reduction target, and then you can get a sense of the revenue picture, but I do hear you, and it's something we will give some thought to.

Europe, I would say 18 to 24 months would be the order of magnitude timeframe. I'm looking at Jackie in the front row. Are you going to be horrified at that, 18 to 24 months? Fine, yeah, 18 to 24 months will be a sense of timeframe.

Nicolaos Nicandrou, Group Chief Financial Officer

Your question was on the partial internal model as well in relation to Europe. I mean, look, it's a good question. It's one example of many things that are available to us to kind of optimise the balance sheet and let me just expand on that a little more, if I may.

Clearly, business-led drivers, such as the Wipro, such as in-housing of annuities, the cost savings programmes is driving capital efficiency. Ultimately, it's helping our operating leverage as well. But there's many balance sheet type actions that we can do. The With-Profit simplification is one example.

I mean, the other few I would flag, just by way of example, we, you know we, unlike many of our peers, up until now, we've only done one major model change. That's when we put Phoenix and Standard Life together. Others have done three or four, and so our capital models, or our approved model, is a little behind the curve.

We're in the process of making our second ever application as we look to increase the sophistication of the way we model credit risk. At the moment, it's very simple. We're moving to a transition and default approach in stressing it, others have done that since day one.

Whether it's Europe on a partial internal model or ReAssure on a standard formula, Sun Life on a standard formula, again, there'll be other applications that will come over the next year or two as we move those to an internal model. And in doing so, we will benefit from the diversification benefits that come across when you integrate it.

In Ireland, we're happy with a partial internal model, but there are further transactions, such as a mass lapse reinsurance, for example, that will put that partial internal model to an outcome that is very similar to a full internal model. Lots and lots of activities and you know a big runway over the next few years to you know generate more value. And all these things are in our scope, and we will address those systematically and extract the benefits.

Andy Briggs, Group Chief Executive Officer

Any other questions in the room? Do we have any questions on the webcast?

Jo Roberts, Investor Relations Director

Yes, we do. Hi, three questions from Farooq at J.P. Morgan. Firstly, on the asset management side, can you let us know how many external asset managers you think you'll end up working with?

Secondly, can you talk about your use of a heavier gilt-based investment strategy compared to peers and any use of derivative strategies to capture a higher spread from gilts?

And lastly, right now, how is further deleveraging versus other uses of excess cash looking on a return on capital basis?

Andy Briggs, Group Chief Executive Officer

Okay, so I'll take the first and you'll take the second?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah.

Andy Briggs, Group Chief Executive Officer

Do you want to do the third or should I do the third? What do you think? Have a think about it.

Nicolaos Nicandrou, Group Chief Financial Officer

I didn't write it down! I was thinking about the second.

Andy Briggs, Group Chief Executive Officer

Okay, I will do the first and the third. So, on the asset management side, how many partners will we work with? We don't have a sort of set specific number we're targeting. We just feel that, with 5,000 funds and the broad range of partners we currently have, we can simplify that down. We can get a better outcome for our customers by having a smaller number of funds and a smaller number of partners. And we would expect Aberdeen, as our key strategic asset management partner, are likely to be a beneficiary of that exercise.

In terms of the return on capital, looking at different options, we're very clear. We have stated a target of a 30% leverage ratio on a Solvency II basis and we're aiming for that, and there's nothing we've seen that suggests that there'll be a higher return on alternatives to doing that. So, that is absolutely our focus. Expect us to use excess cash to de-lever until we get to that 30% target. And then, Nic, on the second?

Nicolaos Nicandrou, Group Chief Financial Officer

On gilts, two or three things to say. Yes, we're long gilts at the moment. The opportunities to deploy some of the new premiums that we've collected over the last year or so into credit are not as valuable as we would like them. So, yeah, we're long gilts, about £1.5bn, but we don't do, I think if your question was referring to sort of leveraged gilt approaches to improve deal economics, we do very modest amounts of that.

Andy Briggs, Group Chief Executive Officer

I think the point I just quickly add there is we're quite happy with a strain around 3% because we're quite happy to deploy capital and then generate an attractive return on that capital and hence make a decent amount of money.

There is a little bit of a tendency in the market at the moment to focus on getting the strain as low as possible. So, for example, doing these leveraged gilt trades, it does bring the strain down, but you end up making an attractive return on very little capital, so don't actually make that much money. And if you do the leveraged gilt trades, you then can't do the annuity portfolio re-optimisation over time either, and so it kind of takes away another source of ongoing value.

So we view the value creation as the primary thing we're trying to achieve here rather than get the strain as low as we possibly can. So, we've got plenty of capital where we, you know, high surplus cash generation. So, we're happy to deploy where we get attractive returns.

Jo Roberts, Investor Relations Director

Thanks

Andy Briggs, Group Chief Executive Officer

No other webcam questions? Okay, so that brings us to the close. I'm actually going to go off piste here and the team don't even know I'm going to do this. Claire looks very worried. Jo looks worried. But I was chatting to Barry Cornes earlier today, and you tell me, Barry, that after over 1,200 analyst company meetings, today is your very last one and your last day. Is that correct? So, I think that, over 1,200, I think that deserves a round of applause to finish. Don't you agree?

I've always got on quite well with Barry. I think he's completely mortified, he'll never speak to me again! But anyway, thanks everyone for coming along. We'll be around for a while if you have any further questions but thanks very much for your time. Much appreciated, thank you.

END