PHOENIX GROUP

HELPING PEOPLE SECURE A LIFE OF **POSSIBILITIES**

PHOENIX GROUP HOLDINGS PLC
ANNUAL REPORT & ACCOUNTS 2020

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The Strategic Report was approved by the Board of Directors on 7 March 2021 and signed on its behalf by

Andy Briggs

Andy Briggs
Group Chief Executive Officer

Visit our website at → **thephoenixgroup.com**

Our performance

KEY PERFORMANCE INDICATORS

£1,713m
(2019: £707m)
Operating companies' cash generation
APM REM

£5.3bn
(2019 pro forma: £4.4bn)
Group Solvency II surplus (estimated)

164%
(2019 pro forma: 152%)
Group shareholder capital coverage ratio (estimated)
APM REM

£766m
(2019: £483m)
Incremental new business long-term cash generation
APM REM

47.5p
2020 total ordinary dividend per share

£1,199m
(2019: £810m)
Operating profit
APM

94%
(2019: 94%)
Customer satisfaction score – telephony
REM Phoenix Life only

90%
(2019: N/A)
Customer satisfaction score – telephony
REM Standard Life only

OTHER PERFORMANCE INDICATORS

£834m
(2019: £116m)
IFRS profit after tax

£13.4bn
2020 pro forma*
(2019 pro forma: £14.1bn)
Group long-term free cash
APM

£362m
(2019: £199m)
New business contribution
APM REM

£338bn
(2019: £248bn)
Assets under administration
APM

28%
(2019: 22%)
Fitch financial leverage ratio
APM REM

All amounts throughout the report marked with REM are KPIs linked to Executive remuneration. See Directors' remuneration report on page 124.

All amounts throughout the report marked with APM are alternative performance measures. Read more on page 309.

* 2020 pro forma Group long-term free cash includes £(0.2)bn adverse impact of disposal of Wrap SIPP, Onshore Bond and TIP products to Standard Life Aberdeen and £(0.3)bn adverse impact in relation to the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget.

Read more about our **strategic priorities and KPIs** → **page 26 to 45**

HELPING PEOPLE SECURE A LIFE OF **POSSIBILITIES**

Today, there is no longer a typical life and people's pensions needs are therefore evolving.

Phoenix has a pivotal role to play as the country navigates the shifting pensions landscape.

That's why our purpose is helping people secure a life of possibilities. This means providing the right guidance and products, at the right time, to support the right choices.

Our vision is to grow a strong and sustainable business to help more people on their journey to and through retirement.

We will focus on delivering against our strategic priorities and managing the business to deliver **cash**, **resilience** and **growth**.

PHOENIX AT A GLANCE

Phoenix is the UK's largest long-term savings and retirement business with £338 billion of assets under administration and c.14 million customers.

We are a constituent of the FTSE 100 with c.7,500 colleagues and offer a broad range of products to support people across all stages of the savings life cycle.

We are a growing and sustainable business with a clear purpose – helping people secure a life of possibilities.

Main brands

PHOENIX GROUP

PHOENIX LIFE

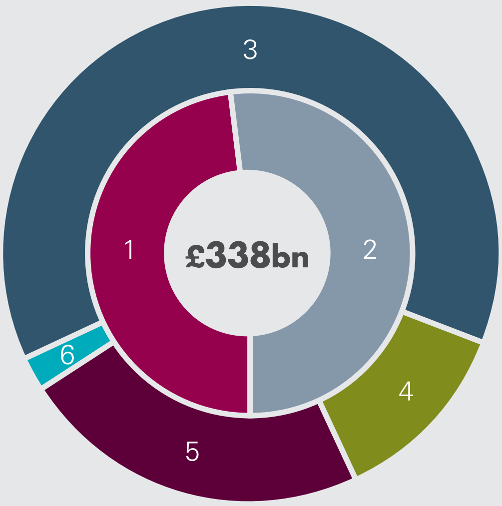
Standard Life

SunLife

ReAssure

Our business

Assets under administration by division and product



AUA by division

1. Heritage	48%
2. Open	52%

AUA by product

3. Unit linked	63%
4. Annuities	12%
5. With-profits	23%
6. Protection, Shareholder & Other funds	2%

HERITAGE
Our Heritage business, where we are the market-leader, is focused on the safe and efficient management of insurance policies. It comprises products that are no longer actively marketed to new customers and where we have stepped in as the custodian of these policies. We have built this business through the consolidation of over 100 legacy insurance brands and have a proven track record of improving customer outcomes.

OPEN
Our Open business operates products that are actively marketed to new and existing customers.

The Open business comprises five separate business units including our Workplace pensions and Customer Savings & Investments ('CS&I') units both of which operate under the Standard Life brand, the Retirement Solutions unit that includes both vesting annuities and our Bulk Purchase Annuity ('BPA') business, as well as our over-50s brand 'SunLife' and our European business operating in Ireland and Germany.

Read more about our **operating structure → page 22**

Why invest in us?

PHOENIX INVESTMENT CASE

Our model is differentiated from our peers by a unique set of competitive advantages and is a business where the whole is greater than the sum of the parts…

CASH
We deliver high levels of dependable cash generation which supports our dividend over the long term.

RESILIENCE
Our unique risk management framework delivers resilience across all of our in-force business.

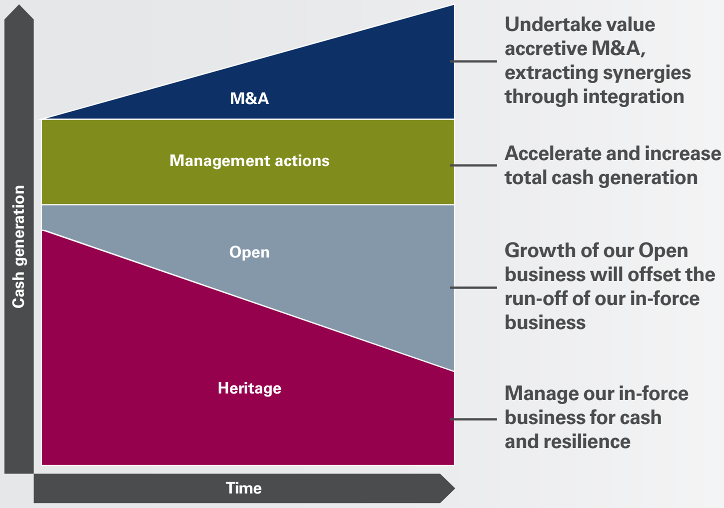
GROWTH
We also generate surplus capital with excess cash to invest in growth options which are aligned to the industry drivers of change.

MARKET-LEADING COST EFFICIENCY
Our optimised operating model delivers an enhanced customer experience and significant cost efficiencies within our business.

BROAD, DIVERSIFIED PRODUCT RANGE
A diversified insurance business drives capital efficiency across both our Heritage and Open businesses.

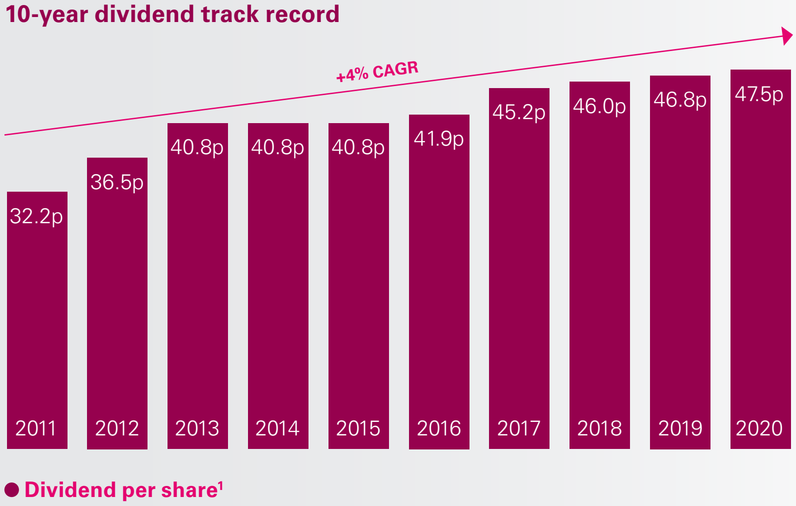
SCALE
As the UK's largest long-term savings and retirement provider, we already have relationships with c.14 million customers.

…which enables Phoenix to deliver long-term predictable cash generation…



…that supports a stable and sustainable dividend with M&A as the historic trigger for uplifts…

10-year dividend track record



1 Dividends rebased to take into account the bonus element of rights issues.

…and, in time, if Open growth more than offsets Heritage run off and long-term free cash is growing, can provide a platform for a growing dividend.

A MORE SECURE AND **SUSTAINABLE FUTURE**

Phoenix has a clear strategy that leverages our leading share of in-force business and the major market trends for growth.

Our purpose is helping people secure a life of possibilities...

CUSTOMERS
We are committed to contributing to the closure of the growing pensions and savings gap. We can do this by providing customers with the right guidance and products, at the right time, to support the right choices – across both our Heritage and Open businesses.

COLLEAGUES
We are committed to engaging all colleagues in our purpose, building a truly diverse workforce and adapting our ways of working to match the best interests of our colleagues. We support our people to grow and this in turn supports the delivery of a growing and sustainable business.

SOCIETY
As a market leader, we believe we have a broader role to play in society. This means taking responsible and sustainable investment decisions and minimising the environmental impact of our business operations. We will also use our presence and voice to advocate on behalf of the UK's savers.

Read more about our
stakeholder engagement → page 58

…which in turn drives our clear strategy that is underpinned by our values…

Our strategy

OPTIMISE IN-FORCE BUSINESS
We manage our in-force business to deliver resilient cash generation and management actions, including cost and capital synergies.

DEEPEN CUSTOMER RELATIONSHIPS
By engaging with our customers and meeting their broader needs, we will retain our customers and they will consolidate towards us as they journey to and through retirement.

CUSTOMER ACQUISITION
We will acquire customers and grow our in-force business by leveraging the industry drivers of change.

Our values

PASSION
Making a positive impact by caring about customers, colleagues and communities.

RESPONSIBILITY
Doing the right thing by taking personal ownership.

Read more about our
business model → page 20

…to deliver cash, resilience and growth

HERITAGE
- Market leader
- Bedrock of our business

OPEN
- Strong foundation
- Unique advantages from operating alongside Heritage

M&A & INTEGRATION
- Market leader
- Differentiated capabilities

CASH
Dependable long-term cash generation supports dividends.

Read more → **page 6**

RESILIENCE
Our risk management framework delivers resilience.

Read more → **page 8**

GROWTH
Capital allocation framework supports our growth aspirations.

Read more → **page 10**

GROWTH
Succeeding through learning, experimenting and adapting.

COURAGE
Innovating by challenging ourselves and others to do better.

DIFFERENCE
Collaborating and finding strength through respecting and embracing new perspectives.

Read more about our **strategic priorities → page 26**

DELIVERING CASH

Phoenix has a long track record of delivering cash generation, meeting or exceeding all cash generation targets since 2010. Predictable long-term cash generation supports Phoenix's stable and sustainable dividend policy.

'Cash is king' at Phoenix, with cash generated by our Life Companies and remitted to Group our key performance metric.

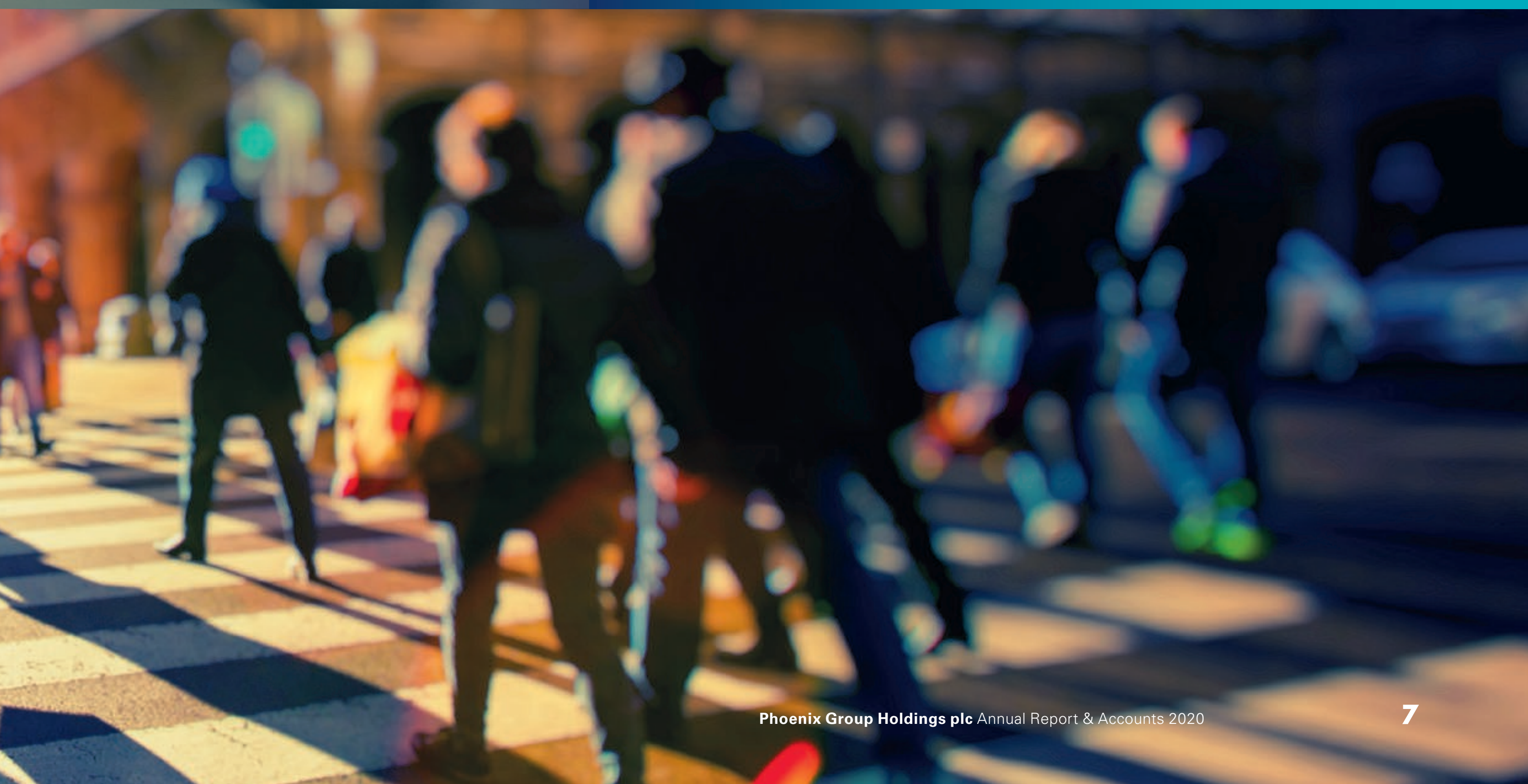
The majority of our 'organic' cash generation comes from the emergence of surplus as our in-force business runs off over time and capital unwinds. However, we also have a strong track record of delivering management actions which increase free surplus and therefore enhance this organic cash generation.

Our new Group metric of long-term free cash represents the cash available for operating costs, interest, growth and shareholder returns.

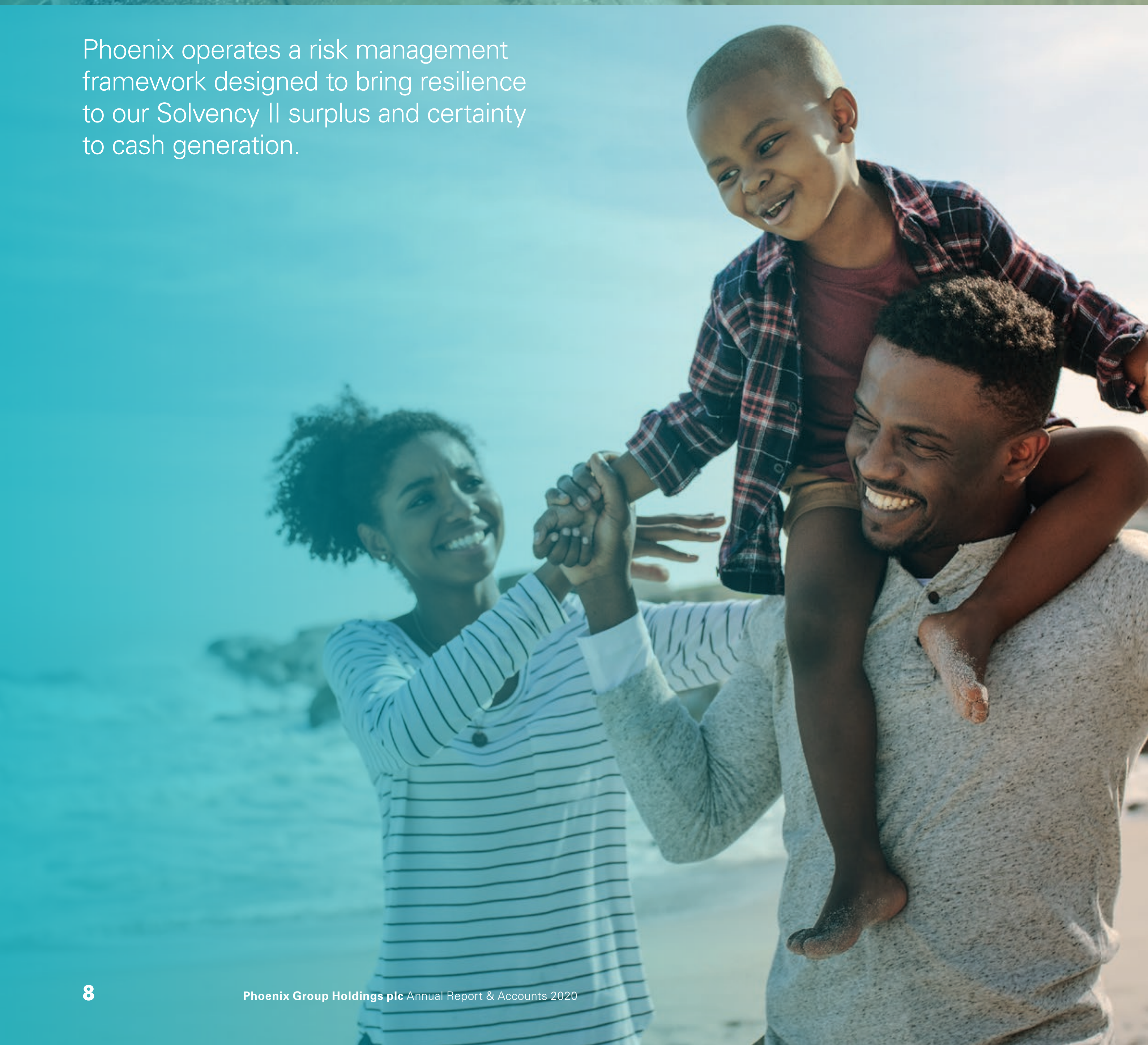
£1.7bn
2020 cash generation

£13.4bn
Group long-term free cash (2020 pro forma)

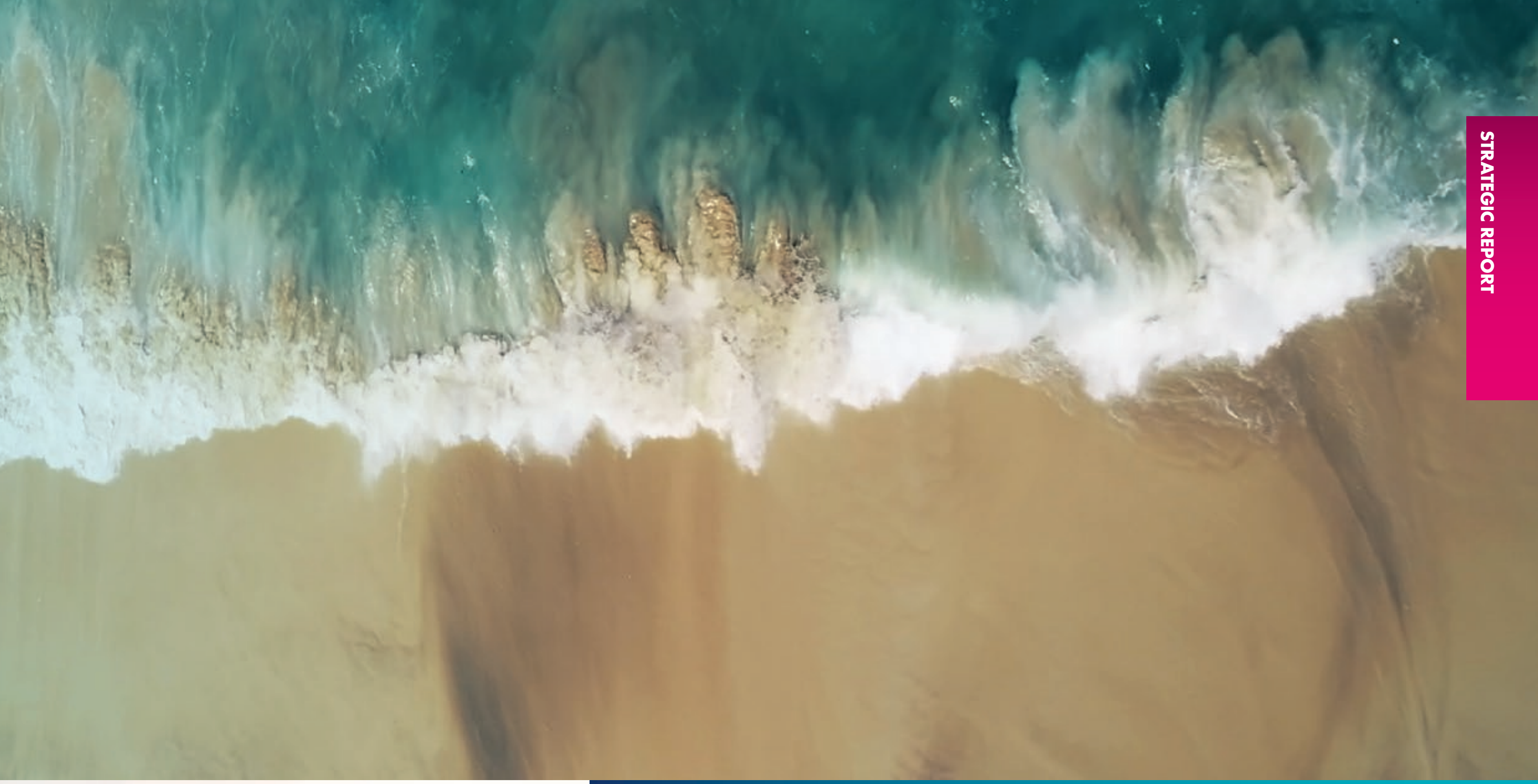
£1.5–1.6bn
2021 one-year cash generation target



DELIVERING RESILIENCE



Phoenix operates a risk management framework designed to bring resilience to our Solvency II surplus and certainty to cash generation.



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.

This is achieved through a combination of asset liability management and risk-reduction actions like hedging and reinsurance.

This approach to risk management results in Phoenix being less sensitive to risk events than the majority of its peers.

We articulate our risk appetite through a target Shareholder Capital Coverage Ratio range of 140% to 180% and manage our key individual risk sensitivities within this range also.

£5.3bn
Group Solvency II surplus (estimated)

164%
Group Shareholder Capital Coverage Ratio (estimated)

DELIVERING GROWTH

Phoenix has a range of growth options across both its Heritage and Open businesses that bring sustainability and the potential for future growth to long-term cash generation.

Growth from new business brings incremental cash generation to Phoenix which offsets the run-off of our in-force business and we are well positioned to capitalise on the key market trends driving growth.

Our growing Open business is focused on both deepening the relationship with our existing customers and acquiring new customers.

We also deliver growth through value-accretive acquisitions and we possess market-leading M&A capabilities that enable us to be at the forefront of future consolidation in the industry.

£766m

2020 incremental new business long-term cash generation

£7bn

of additional long-term cash generation added through the acquisition of ReAssure Group plc

A CLEAR ROLE IN SOCIETY

Nicholas Lyons, Chairman

2020 has been a year of change for Phoenix as we welcomed Andy Briggs as our new CEO and completed the acquisition of ReAssure, making Phoenix the UK's largest long-term savings and retirement business.

A YEAR OF SIGNIFICANT PROGRESS

Under Andy's leadership, Phoenix is evolving from being a financial consolidator to a purpose-led business with a clear role in society.

The Board recognises that Phoenix has a pivotal role to play as the country navigates the shifting pensions and savings landscape and is committed to fulfilling our purpose of helping people secure a life of possibilities.

It is with great enthusiasm that we have supported Andy as he has built his executive team who will help him deliver this new vision for the Group. This team brings together the strengths of our legacy businesses, with internal promotions being augmented by new colleagues from ReAssure and external appointments to fill gaps in our skills and bring market-leading experience.

Phoenix's journey is one of evolution. We are building on our market-leading capabilities in managing Heritage businesses and undertaking M&A and integration, and are now developing a thriving Open business that supports customer retention and customer acquisition.

In addition to the strategic change we had expected in 2020, we have also been dealing with the challenges resulting from the COVID-19 pandemic. Phoenix's priorities throughout this period have been to protect our customers and colleagues and support the communities in which we operate. The Board has played a key role in these efforts with bi-weekly virtual briefing sessions to keep apprised of the Group's operational and financial position, and to support the executive team as they adapted to the emerging needs of our customers and colleagues.

This challenging period has demonstrated the strength of Phoenix's business model. The Group has continued to deliver cash, resilience and growth and has performed strongly against its strategic objectives. This financial stability has enabled Phoenix to continue to pay dividends as planned. The Board recognises that dividends are an important income stream both for retail shareholders and the end consumer who invests in institutional income funds. They are typically ordinary savers and pensioners who need this income stream, which in turn supports the broader economy.

"I am delighted to see the progress Phoenix is making as it evolves from being a specialist financial consolidator to a purpose-led organisation that uses its scale and resources to play a pivotal role in society."

The successful acquisition of the ReAssure Group has further enhanced the sustainability of our dividend. I am therefore pleased to confirm that, in line with our previous guidance, the Board is recommending a final 2020 dividend of 24.1 pence per share, an increase of 3% compared to the interim dividend.

Another important societal shift is the increasing focus on environmental sustainability. I am therefore delighted that Phoenix has put sustainability at the heart of its strategy and has committed to achieving net-zero carbon by 2025 across our operations and by 2050 across our investment portfolio. Given its importance, the Board wanted to ensure that our sustainability agenda was fully embedded in the business and underpinned by strong governance. We have therefore established a new Board Sustainability Committee chaired by Karen Green. This committee is responsible for the review and oversight of the Group's sustainability strategy which continues to evolve at pace.

LOOKING AHEAD

After a very successful year, we look towards the future with optimism. Phoenix's market leading Heritage and thriving Open businesses, combined with a strategy that is closely aligned to our industry's trends, ensure the Group is well positioned to take advantage of emerging opportunities. Phoenix is growing a strong and resilient business to help more people on their journey to and through retirement.

BOARD CHANGES

In addition to Andy Briggs joining as our new CEO, I was also pleased that Rakesh Thakrar was promoted to the role of Group CFO and joined the Board. Rakesh had previously served as the Group's Deputy CFO and so his promotion is testament to our strong succession planning.

Following completion of the ReAssure acquisition, Christopher Minter and Hiroyuki Iioka joined the Board as part of our relationship agreements with the Swiss Re Group and MS&AD respectively. They bring substantial experience and executive skills to our Board and additional international perspectives. Also, Campbell Fleming from Standard Life Aberdeen has left the Board due to its reduced shareholding following the completion of the ReAssure transaction. On behalf of the Board I would like to thank Campbell for his excellent and insightful contribution during his time with us.

THANK YOU

Finally, I would like to take the opportunity to thank the Board, my colleagues, our partners and our stakeholders for their hard work and dedication in what has been another successful, albeit challenging, year.

Nicholas Lyons
Chairman

You can find out more about how we are delivering on our ambitious sustainability commitments in our comprehensive 2020 Sustainability Report at: **www.thephoenixgroup.com/sustainability/reports**

A REMARKABLE YEAR OF PROGRESS

Andy Briggs, Group Chief Executive Officer

2020 was a landmark year for Phoenix during which the Group became the UK's largest long-term savings and retirement business and once again delivered on its key attributes of Cash, Resilience and Growth.

We delivered our highest ever year of cash generation, exceeding the upper end of our target range, and built good momentum in the growth of our Open business. Phoenix's strong operational and financial resilience ensured we continued to deliver for all of our stakeholders in the face of an unprecedented period of disruption, and it also enabled us to pay our dividends as planned.

In addition, we completed our largest M&A transaction to date with the acquisition of ReAssure Group plc, bringing an additional £7 billion of incremental long-term cash generation to the Group, together with market-leading skills and capabilities. You can find out more about the ReAssure acquisition in the case study on the next page.

SUPPORTING OUR CUSTOMERS, COLLEAGUES AND COMMUNITIES

2020 has been an unprecedented year for all of us due to the global health crisis caused by the COVID-19 pandemic. Phoenix's key priorities throughout this time have been to protect our customers and colleagues, and to support the communities in which we operate. I am immensely proud of the dedication and resilience our colleagues have shown as they provided the very best support for our customers and supported each other. Our colleagues have lived up to the values we seek to embody and have demonstrated the key attributes of the purpose-led organisation we are. You can find out more about our COVID-19 response in the case study opposite.

DELIVERING CASH, RESILIENCE AND GROWTH

Phoenix has continued its 11-year unbroken track record of delivering against all of its publicly stated financial targets. With £1.7 billion of cash generation in 2020, we exceeded the upper end of our target range of £1.5 to £1.6 billion. We also maintained our strong capital position reflected in a Solvency II surplus of £5.3 billion and a Shareholder Capital Coverage Ratio (SCCR) of 164%.

The growth of our Open business has continued at pace, with strong new business generating £766 million of incremental long-term cash, a 59% increase from 2019 and significant progress towards proving 'the wedge'. Retirement Solutions was the largest contributor during the year at £522 million, where our Bulk Purchase Annuity (BPA) business growth is accelerating and we also made further progress in reducing our external deal capital strain having reduced it to 8%.

Our response to COVID-19

Our modern IT platform enabled us to equip 99% of our colleagues to work from home within 10 days of the first lockdown and still maintain customer satisfaction at pre-pandemic levels with call answer rates >95% and customer satisfaction scores at 90%+.

To enhance our support for customers we accelerated our digitisation strategy and rolled out a range of additional support services such as waiving the moratorium on COVID-19-related claims in our SunLife business and rapidly enabling customers to move from cheque to BACS payments.

For our colleagues, we offered a range of homeworking support solutions in addition to both a remote working and homeschooling expense provision. We also launched new initiatives to engage and inspire our colleagues, including a range of resources to support mental and physical wellbeing.

Our colleagues also remained deeply involved in community work, operating as NHS responders or by embracing remote volunteering.

We are committed to providing the best support to all our stakeholders and what we have learnt during this time will make a significant difference to how we operate over the long term, and is driving an enduring change in our business.

The resilience of our business model and the dependable cashflows we generate enabled the Board to approve the payment of our planned dividends throughout 2020, against a backdrop of paused or cancelled dividends across the wider market. This positions Phoenix in the top-30 largest 'dividend payers' in the FTSE 100 and is testament to our sustainable dividend.

A CLEAR ROLE TO PLAY IN SOCIETY

It is clear that there is a significant shift in macro and demographic trends that is driving profound change in the UK's long-term savings and pensions market. The market is increasingly complex and people need more support than ever as they journey to and through retirement.

Phoenix therefore has a pivotal role to play as the country navigates the shifting pensions landscape. That is why our purpose is **helping people secure a life of possibilities**. This means providing the right guidance and products, at the right time, to support the right choices, across the savings life cycle.

I passionately believe that businesses with the best people, focused on their purpose and their role in society, deliver better customer outcomes, and in turn, stronger returns for shareholders.

Our vision is therefore to grow a strong and sustainable business to help more people on their journey to and through retirement.

COMMITTING TO A SUSTAINABLE FUTURE

We see sustainability as being at the core of our purpose and a key enabler of our strategy. That is why we recently launched our comprehensive sustainability strategy that addresses the critical trends impacting our industry, including the aging population and the responsibility to address global environmental challenges.

Our strategy focuses on delivering for our c.14 million customers and investing our £338 billion of assets under administration in a sustainable manner.

A key part of this is our commitment to achieving net-zero carbon using science-based techniques across the Group's operations by 2025 and our investment portfolio by 2050. You can find out more about what we are doing here in the case study on page 17.

As the UK's largest long-term savings and retirement business, we are also committed to contributing towards the closure of the UK's growing pensions and intergenerational savings gap. We believe that we can contribute to this through providing innovative ESG-led products for a changing society, by promoting financial inclusion and education with a particular focus on supporting vulnerable customer groups, and by enhancing our digital experience to widen access for all.

For example, this year we undertook an innovative research project aimed at better understanding the needs of our customers in relation to sustainability.

ReAssure

In July we completed the acquisition of ReAssure Group plc and were delighted to welcome c.3,000 new colleagues to our Group. The transaction significantly enhanced Phoenix's cash generation profile and scale with £7 billion of additional long-term cash generation, £75 billion of AUA and c.4 million customers. The acquisition makes Phoenix the UK's largest long-term savings and retirement business.

The transaction also reflects the highly cash generative nature of legacy consolidation businesses. The relatively front-loaded acquired cashflows significantly bolster the amount of surplus cash we have available to fund future M&A and to reinvest in our Open business growth strategy.

Phoenix and ReAssure have been leaders in the UK consolidation market over recent years with both companies having strong track records of successful M&A and integrations. ReAssure's ALPHA administration platform has proven to be flexible, scalable and resilient. Operating this in-house platform alongside Phoenix's outsourced Diligenta BANCS platform further strengthens the Group's market leading integration capabilities. It enables the Group to run multiple integrations in parallel, which in turn provides us with opportunities to enhance the speed and frequency with which we can undertake M&A and deliver cost and capital efficiencies.

This will support the ongoing development of a range of ESG products across the savings life cycle and follows the launch of a workplace ESG passive default fund in December.

Alongside this, as individuals increasingly incorporate ESG considerations into their long-term savings decisions, we are also focused on fostering responsible investment through the active stewardship of assets on behalf of our clients.

EVOLVING THE PHOENIX STRATEGY

Our strategy, which we announced at our Capital Markets Day in December 2020, is one of evolution, not revolution. It builds on the strong foundations that underpin Phoenix's market leading capabilities and responds to the shifting pensions landscape to deliver future growth.

Phoenix's strategy is therefore focused on optimising our in-force business to deliver resilient cash generation, deepening the relationships with our c.14 million existing customers by engaging with them and meeting their broader needs, and acquiring new customers through both our Open businesses and M&A as we leverage the industry drivers of change.

Lower for longer interest rates and turbulent equity markets are resulting in insurers continuing to look to free up capital by divesting their legacy or 'heritage' books of business to scale players such as Phoenix. As the market leader in the acquisition and management of closed-book life and pensions insurance businesses, Heritage will remain the bedrock of our business. Here we will continue to focus on delivering improved customer outcomes and managing our in-force book for cash and resilience. In addition, our market-leading M&A and integration expertise provide a differentiated capability that will allow us to deliver value from industry consolidation. There is a huge M&A opportunity for us to explore with the UK Heritage market worth £440 billion alone and we have the integration capacity to do the next transaction when it emerges.

Looking to the future, people's needs are changing as they move through the stages of the life savings cycle. We are seeing strong growth in the workplace market, driven by auto-enrolment, an ageing population and a move from defined benefit to defined contribution pension schemes. We also know that as individuals prepare for retirement and move into the decumulation stage of the savings life cycle, they are increasingly seeking guidance. At the same time, corporate pension schemes are looking to de-risk their balance sheets through BPA transactions. Our strategy is therefore designed to position the Group for sustainable long-term growth by responding to these rapidly evolving sector trends and changing customer needs.

We are already a top-three player in the £40 billion per annum UK workplace market. Our strategy in this segment is to protect our existing business and grow our market share by accelerating the investment in our proposition and aligning to changing sector trends such as the growth in Master Trusts.

Within our Customer Savings & Investments segment we are focused on engaging our c.14 million customers to better understand their savings needs and provide innovative solutions as they journey to and through retirement. We estimate annual flows of about £30 billion per annum into products supporting this stage of the life savings cycle.

And we are an established participant in the £40 billion per annum BPA market which constitutes a dependable growth opportunity. Our strategy here is to grow and expand through further developing our market proposition, building a best in class asset management capability and improving our capital efficiency.

To support the delivery of this strategy we have recently implemented a new organisational design, as we build out our existing team with high calibre new appointments designed to bring on board additional skills and experience.

INVESTING IN OUR PEOPLE AND CULTURE

I believe that building a strong culture and diverse team of highly engaged colleagues is fundamental to the fulfilment of our purpose and the delivery of our strategy. We are committed to making Phoenix the best place our colleagues have ever worked. To achieve this, we want to be an organisation where diversity of thought and perspective is genuinely embraced. We have made strong progress across our main areas of focus which revolve around employee engagement and culture, diversity and inclusion, wellbeing and mental health, as well as talent and capabilities.

The crafting of our new purpose statement involved a Company-wide consultation initiative to incorporate our colleagues' perspectives and ensure our purpose resonated strongly. We have also launched a number of initiatives including a Group-wide employee engagement exercise aimed at determining our future ways of working, a comprehensive Diversity and Inclusion strategy underpinned by a range of targeted support networks, and an enhanced talent management framework to support development.

As a result, we have already seen some strong momentum in terms of improved colleague advocacy through our annual colleague engagement survey, with a 10ppts increase in overall colleague engagement to 75%.

DELIVERING FOR OUR CUSTOMERS

Delivering for customers is central to our strategy. We are therefore focused on improving customer outcomes, providing strong customer service and investing in developing market leading propositions. 2020 has been a year of delivery across each of these areas.

Within our Heritage business we have been improving customer outcomes through ensuring we deliver good value for money for our customers, making continuous improvements to our customer communications to increase engagement, and by proactively tracing and repatriating unclaimed life insurance policies. Our focus on the customer has seen us continue to provide excellent customer service as evidenced by having met or exceeded all of our key customer satisfaction scores in 2020, despite the pandemic challenges.

In our Open business Workplace unit, we have made significant enhancements to our proposition such as broadening our ESG fund offering with the launch of a new multi-asset ESG Defined Contribution Default fund and the launch of an in-scheme draw-down functionality so that more of our customers can access their pension benefits in a flexible way. While the development of an enhanced client analytics tool, in collaboration with our digital partner Tata Consultancy Services (TCS), will provide enhanced customer insights and allow us to offer a more personalised customer experience.

Meanwhile, the trend to 'digital first' is set to further accelerate and become the preferred method of interaction for our customers. We have made significant digital enhancements across

both our Heritage and Open businesses this year and have seen increased usage of our digital solutions with >50% of total log-ins now through our enhanced mobile app and a more than doubling in the use of secure messaging by customers.

STANDARD LIFE BRAND ACQUISITION

The recently announced simplification of our Strategic Partnership with Standard Life Aberdeen plc has seen us acquire the Standard Life brand and with it full control over marketing and distribution. This will enable us to provide a more streamlined, multi-channel customer experience and allow us to accelerate the delivery of a broader set of product and service propositions. We therefore see this as a key enabler for accelerating our Open business growth strategy and delivering incremental new business long-term cash generation over time.

OUTLOOK

Phoenix is well positioned to leverage the key industry drivers of growth while continuing to optimise its market-leading share of in-force business in the UK long-term savings and retirement market.

Phoenix's differentiated operating model epitomises the whole being greater than the sum of the parts. Our Open business benefits from a unique set of advantages from operating alongside our Heritage business.

We are the market leader in the UK Heritage consolidation market and while this remains our priority for M&A, we would also consider the acquisition of Open books of business if they offered a clear strategic fit.

Within our Open business, we are building on our strong foundations to deliver growth by further strengthening our proposition, deepening the engagement with our large existing customer base and acquiring new customers through our Workplace and BPA businesses. All of which is now enhanced by our ownership of the Standard Life brand, marketing and distribution.

Delivering on our Open business growth aspirations will bring enhanced long-term sustainability to the Group's organic cash generation and also has the potential to support future dividend growth subject to two clear conditions.

The first is that we must prove 'the wedge' and see the cash generated from new business more than offset the run off of our in-force business of c.£800m per annum, which we came close to achieving in 2020 at £766m. The second is that our recurring sources of cash must exceed our recurring uses, to support sustainable growth in Group long-term free cash.

Our priorities for 2021 are clear. We will focus on managing our balance sheet for **cash** and **resilience**, and we will accelerate our Open business **growth** strategy. As a purpose-led organisation, we will do this through delivering on our sustainability commitments, ensuring our customers are at the centre of everything we do and by investing in our people and culture.

Net-zero carbon pledge

Climate change is one of the biggest global issues we face and in support of the goals of the 1.5° Paris Agreement, Phoenix is committed to becoming net-zero carbon in our operations by 2025 and in our investment portfolio by 2050.

We have devised a clear emission reduction plan for our operations and by the end of 2021 we expect to have 100% renewable energy contracts across all sites, 100% of waste diverted away from landfill and we have set a target to reduce our Scope 1 & 2 emissions by 20% in 2021.

We are also committed to decarbonising our investment portfolios. Through our membership of the Institutional Investors Group on Climate Change (IIGCC), we took part in a pilot to build and test Paris Agreement-aligned portfolios and this has provided valuable insight into how we can look to implement our net-zero investment strategy.

Read more about our **sustainability progress → page 38**

We also see the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') as an enabler of our net-zero carbon commitment and of the transition to a low-carbon economy.

Find out more in our **TCFD report → page 67.**

THANK YOU

I am proud that Phoenix has continued to progress and evolve in 2020 despite the challenging backdrop. I want to thank all of my colleagues for their dedication and efforts to support each other, our customers and the communities within which we operate. I look forward to delivering another year of significant progress in 2021.

Andy Briggs
Group Chief Executive Officer

THE MACRO AND MARKET CONTEXT IS EVOLVING RAPIDLY

Macro trends are driving profound change and growth in the UK long-term savings and retirement market. We identify six significant trends that inform our strategy:

AGEING POPULATION

We live in an ageing society, with more people than ever benefiting from a longer, healthier life. But this has created retirement savings challenges for individuals and companies alike.

24%

of the UK population will be >65 by 2043 up from 18% in 2018

RESPONSIBILITY SHIFT TO THE INDIVIDUAL

At the same time, the world of pensions has radically shifted with individuals now expected to take the lead in planning and funding their longer retirements.

8x

the number of defined contribution scheme members compared to defined benefit scheme members

GROWTH IN AUTO-ENROLMENT

We are seeing strong growth in auto-enrolment pension contributions following its launch in the UK in 2012 as more people start saving for retirement.

£24bn

of annual flows into workplace schemes in 2019 having tripled since 2012

FINANCIAL UNCERTAINTY

Uncertainty is forcing people not simply to live for today, but to look further ahead. However, pensions are unsurprisingly seen as complex, and not everyone is saving enough to secure the future they would like.

DIGITISATION

There is increasing demand from customers for digital solutions for financial management, with digital set to become the normal method of interaction and a key differentiator for attracting new customers.

SUSTAINABILITY

Interest in sustainability is increasingly shaping decisions, as people want their money being put to good use. This includes a focus on climate change and how businesses are responding and taking steps to reduce emissions.

Looking forward, we see four major market trends which represent significant growth opportunities for Phoenix:

INSURERS ARE CONSOLIDATING

Pressure on insurer balance sheets to free up capital trapped in heritage books makes more consolidation likely. This represents a £440 billion M&A opportunity for our Heritage business in the UK market alone.

Phoenix response

We remain focused on identifying value-accretive M&A opportunities, where we can leverage our market-leading capabilities in successfully completing transactions, integrating businesses and delivering cost and capital synergies.

£630bn

Heritage M&A opportunity across UK, Germany and Ireland

STRONG AUTO-ENROLMENT WORKPLACE GROWTH

The workplace market has flows of £40 billion per annum and this is growing rapidly, driven by auto-enrolment, an ageing population and the move from defined benefit schemes to defined contribution schemes.

Phoenix response

We are a top-three player in the Workplace market with a c.11% market share and our strategy is to protect and grow our business. We will do this by continuing to invest in strengthening our proposition and digital platform, as well as improving our cost efficiency to support competitive pricing.

£40bn

Estimated future market flows per annum

INDIVIDUALS ARE RETIRING

As responsibility for managing retirement income continues to shift to the individual, people are seeking guidance on their journey to and through retirement, with additional market flows of £30 billion per annum.

Phoenix response

By engaging our c.14 million customers to better understand their savings needs we can invest in our proposition to provide innovative solutions that encourage customers to consolidate their pension pots with Phoenix and enables us to retain them after they reach retirement.

£30bn

Estimated future market flows per annum

CORPORATES ARE DE-RISKING

Corporates are increasingly de-risking their defined benefit scheme liabilities through BPA transactions in order to focus on their core businesses. This is fuelling increased demand for BPAs with market flows of £40 billion per annum.

Phoenix response

We are an established player in the BPA market and are investing further to develop a market-leading franchise to enable us to grow and expand our business. This will be supported by building a best-in-class asset management capability and improving our capital efficiency.

£40bn

Estimated future market flows per annum

INSPIRING CONFIDENCE BY DELIVERING VALUE

Our business model leverages our core capabilities and clear strategy to deliver for all of our stakeholders.

We are set apart by the core capabilities that underpin our business model

EXPERTISE
Our experienced team of colleagues are experts in managing our in-force business for cash and resilience, and the delivery of management actions. We also have a growing team dedicated to driving Open business growth.

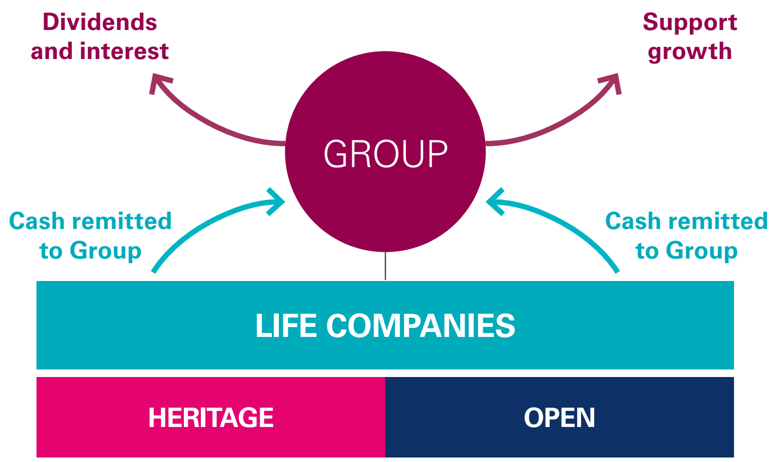
OPTIMISED OPERATING MODEL
Delivers an enhanced customer experience and market-leading cost efficiency across both our Heritage and Open businesses.

SCALE
As the UK's largest long-term savings and retirement provider, we have relationships with c.14 million customers.

TRUST AND CREDIBILITY
Our financial strength, combined with our strong track record of successful M&A and integration, means we are a trusted counterparty for vendors looking to dispose of life insurance assets and for pension trustees in the BPA market.

RISK MANAGEMENT FRAMEWORK
We operate a unique risk management framework that makes us less sensitive to market fluctuations and delivers a resilient balance sheet.

Phoenix has a simple business model and operating structure which underpin our financial framework of cash, resilience and growth.



THE GROUP function manages corporate and strategic activity including M&A. Cash remitted to Group is used to pay interest and dividends and supports growth.

LIFE COMPANIES manage the financial assets of customers and integrate acquired businesses. This simplifies the operating model and ensures the efficient use of capital. The Life Companies remit cash to the Group.

Read more about our **efficient operating structure → page 22**

Read more about **how we generate cash → page 24**

Our strategy is delivered through five strategic priorities

MANAGE OUR CAPITAL POSITION
Read more → **page 26**

CREATE VALUE AND DELIVER DEPENDABLE CASH GENERATION
Read more → **page 30**

MEET CHANGING CUSTOMER NEEDS
Read more → **page 34**

PUT SUSTAINABILITY AT THE HEART OF OUR BUSINESS
Read more → **page 38**

INSPIRE OUR PEOPLE
Read more → **page 42**

Positive outcomes are delivered for all of our stakeholders

CUSTOMERS
Improved customer outcomes.
Read more → **page 60**

90%+
customer satisfaction scores all met or exceeded group targets

SHAREHOLDERS
Shareholder value created and stable and sustainable dividends delivered.
Read more → **page 64**

47.5p
2020 total ordinary dividend per share

COLLEAGUES
Challenged, motivated and rewarded colleagues.
Read more → **page 62**

75%
colleague engagement score up 10ppts in 2020

SOCIETY
Support for local communities and charity partners.
Read more → **page 63**

£2million
of charitable donations in 2020

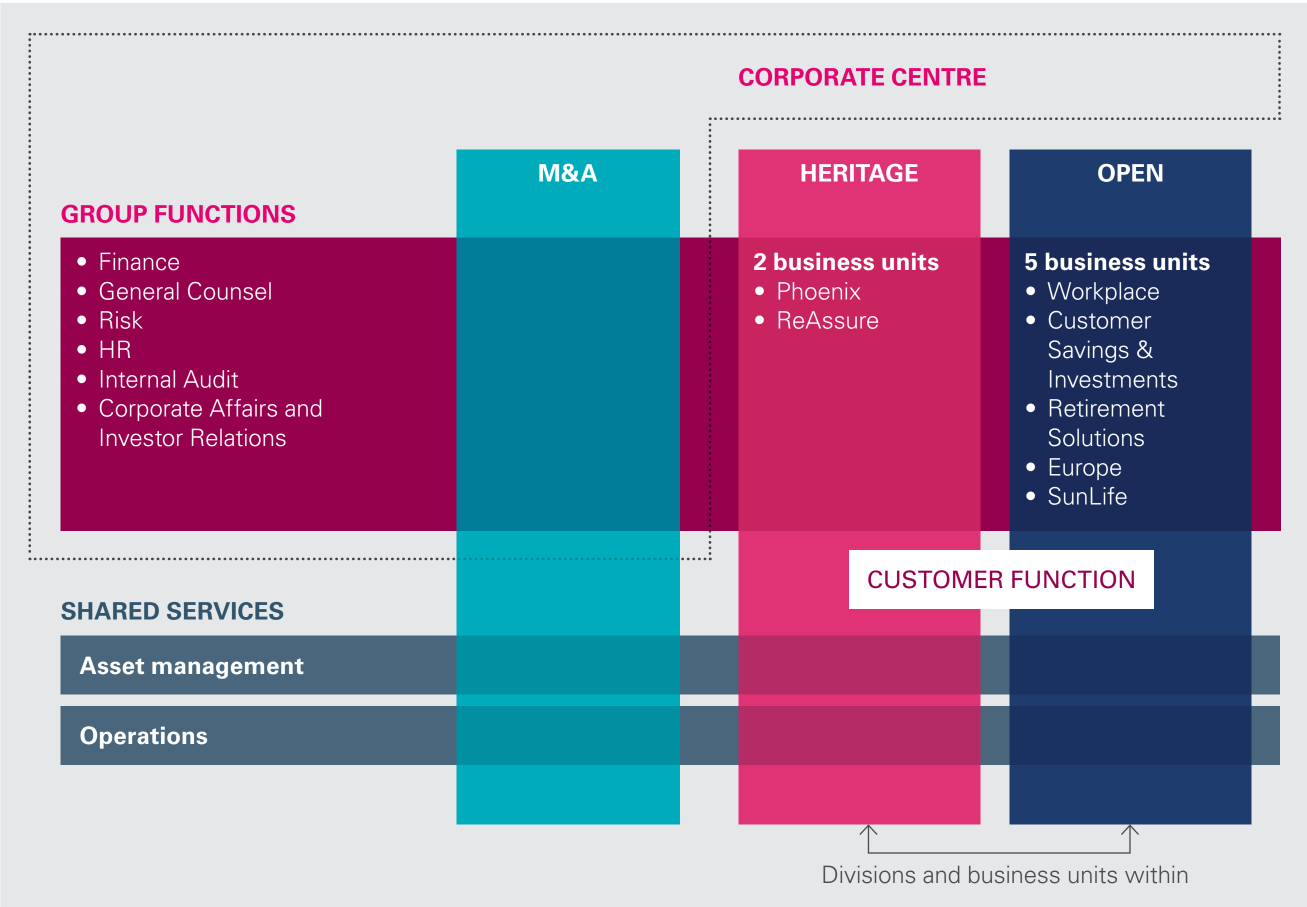
ENVIRONMENT
Reduced environmental impact.
Read more → **page 63**

net-zero
carbon commitment for our operations by 2025 and investments by 2050

Read more about **how we improve stakeholder outcomes → page 58**

AN EFFICIENT OPERATING STRUCTURE

To set ourselves up for future growth and success, Phoenix is organised into customer-oriented business units, shared services and functions



EVOLVING OUR OPERATING STRUCTURE

During 2020, Phoenix has evolved its operating structure to support our vision of building a growing and sustainable business, whilst retaining the attributes of a small and agile organisation. Our new matrix structure is designed to drive accountability down into the organisation and empower our leaders and people to deliver on our strategy.

DIVISIONS

Business units

Our Heritage and Open divisions operate through a number of customer-oriented business units – more details opposite.

Customer function

Our customer function is responsible for the customer journey for all of our c.14 million customers and is focused on improving customer outcomes and providing strong customer service.

SHARED SERVICES

Asset management

We are building a best-in-class asset management function that operates as a shared service and provides investment solutions into each of the business units. This comprises both a market-leading in-house function and a range of external partners including our core strategic partner ASI.

Operations

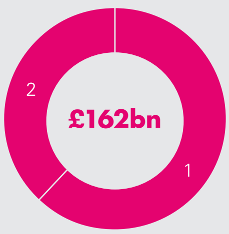
Our cost-efficient hybrid operating model for customer administration uses both in-house and out-sourced solutions with a unique flexibility provided by the two platforms we operate, with both ReAssure's ALPHA platform and Tata Consulting Services ('TCS') BANCS platform key to our model.

CORPORATE CENTRE

The Group operates centralised functions that partner with our divisions and manage our corporate and strategic activity, including a centralised M&A capability.

Heritage

Assets under administration



1. Phoenix	62%
2. ReAssure	38%

Our Heritage business comprises products that are no longer actively marketed to customers. Our strategy is to deliver improved customer outcomes and manage our in-force business for resilience and cash.

Phoenix is the market leader in the safe and efficient management of Heritage in-force business and has a strong track record of delivery.

The business has been built from two decades of consolidation and comprises over 100 legacy brands including Britannic, Pearl, Scottish Mutual, AXA and Abbey Life, as well as the heritage customers of Standard Life Assurance Limited. It also includes the recently acquired ReAssure business that currently operates as a business unit.

The business has a broad range of life and pensions products which provide diversification and capital efficiencies.

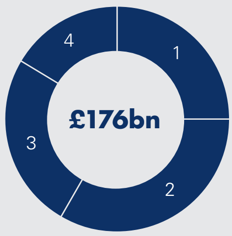
Organic cash emerges naturally from our in-force business as it runs off over time and we enhance this organic cash generation through our proven ability to deliver management actions which either increase the overall cashflows from the business or accelerate the timing of these cashflows.

Organic cash generation runs off at c.6% per annum depending on the particular features of each book.

Integral to the efficient management of our Heritage business is ensuring we continue to optimise our operating model including implementing a single administration platform and harmonising our actuarial and finance models.

Open

Assets under administration



1. Workplace	25%
2. Customer Savings & Investments	33%
3. Retirement Solutions	26%
4. Europe	16%
5. SunLife	0%

Our growing Open business comprises products that are actively marketed to customers. Our strategy seeks to capitalise on the industry drivers of change through helping customers' journey to and through retirement by providing long-term solutions to their savings needs.

Our Open business comprises five business units: Workplace, Customer Savings & Investments, Retirement Solutions, Europe and SunLife.

WORKPLACE

Workplace is our engine for growth in customer acquisition and is marketed through our Standard Life brand. We are a top-three workplace pensions provider with £44 billion of AUA across 36 thousand schemes and 1.8 million members. Our proposition includes contract-based, trust-based and the increasingly popular master-trust schemes. Our strategy here is to protect and grow our business by continuing to invest in strengthening our proposition and digital platform.

CUSTOMER SAVINGS & INVESTMENTS

We offer a range of products across both the accumulation and decumulation stages of the life-savings cycle through our Standard Life brand. Our strategy is built on better understanding our c.14 million customers' needs in order to provide them with innovative solutions. Future new business will be generated as we engage our customers in their holistic savings needs to motivate them to consolidate their pension pots with Phoenix and as we retain our existing customers when they reach retirement age through a guidance proposition.

RETIREMENT SOLUTIONS

This business unit includes both vesting annuities and our BPA business, where we acquire annuities and deliver the financial stability required to secure pensions currently provided by UK corporates. We are an established player in the BPA market with a c.6% market share in 2020. We are building a market-leading team to deliver our strategy to grow and expand this business. Key to this will be broadening our market proposition, developing a best-in-class asset management capability and improving our capital efficiency.

EUROPE

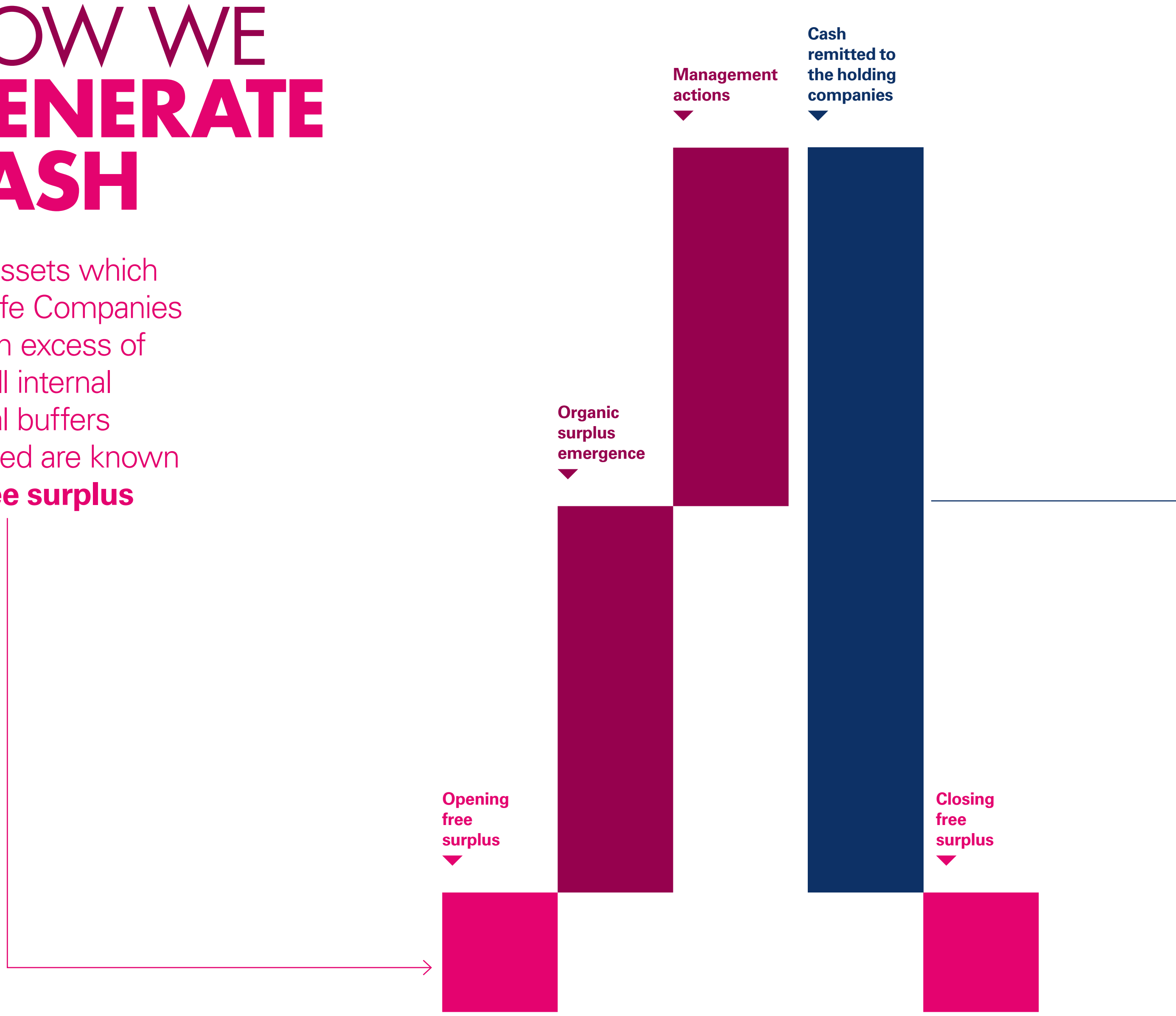
Our European business operates in Ireland and Germany primarily through our Standard Life brand. It offers a range of pensions and savings products, including international bonds.

SUNLIFE

SunLife continues to hold a strong position in the over-50s market, generating new business across its life cover, equity release and funeral plans.

HOW WE GENERATE CASH

Any assets which the Life Companies hold in excess of overall internal capital buffers required are known as **free surplus**



Cash generation within our Life Companies

Opening free surplus

WHAT IS THE OPENING FREE SURPLUS?

Life Company Own Funds
Life Companies hold capital in accordance with Solvency II regulations, providing appropriate security for policyholders. This capital is known as Solvency II Own Funds.

Less Solvency Capital Requirement
The level of regulatory capital required is known as the Solvency Capital Requirement.

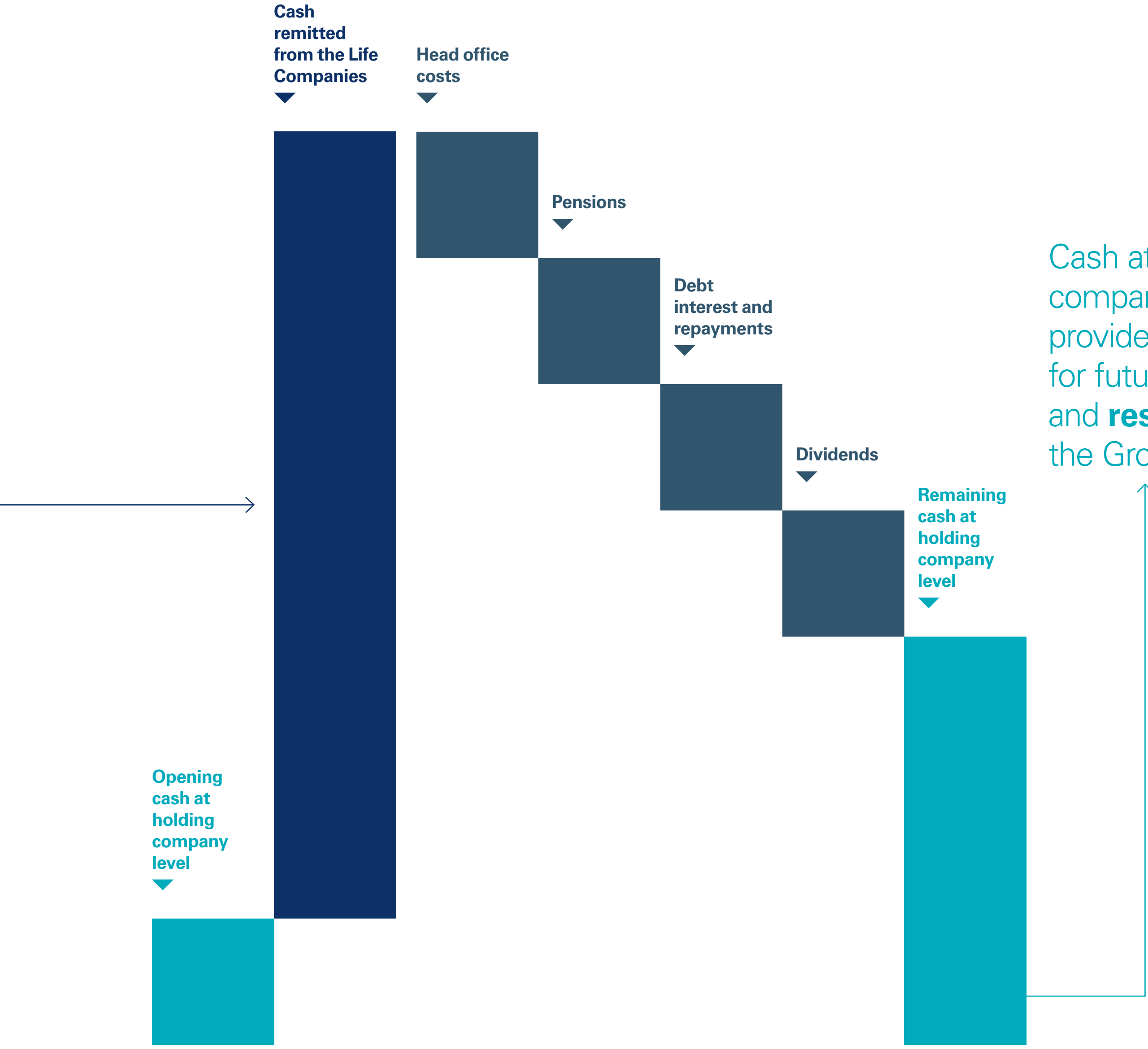
Less Capital Policy
The Life Companies hold internal capital buffers above the regulatory capital requirement for prudence.

Sources of Life Company cash generation

HOW IS FREE SURPLUS GENERATED?

Organic surplus emergence
Life Companies earn margins on different types of life and pensions products increasing Own Funds. In addition, as our in-force business runs off the Solvency Capital Requirements reduce.

Management actions
These can either increase Own Funds or reduce capital requirements.



Cash at the holding company level provides resources for future growth and **resilience** for the Group

Cash utilisation at holding company level

Uses of holding company cash generation

WHAT IS THE CASH REMITTED FROM THE LIFE COMPANIES USED FOR?

Head office costs
Including salaries and other administration costs.

Pensions contributions
To the Group's employee Defined Benefit schemes.

Debt interest and repayments
On outstanding Group shareholder debt.

Dividends
The Group currently operates a stable and sustainable dividend policy.

Uses of remaining cash – growth opportunities

WHAT IS THE REMAINING CASH USED FOR?

Mergers and acquisitions
As well as providing a clear strategic fit, M&A transactions must meet our three key criteria of being value accretive, supporting the dividend level and maintaining the Group's investment grade rating.

BPA transactions
Generate increased cash flows over the longer term and are value accretive.

MANAGE OUR CAPITAL POSITION

We seek to optimise our capital structure while addressing the diverse needs of our policyholders, investors and regulators.

We continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

Our approach to risk management brings resilience to our Solvency II balance sheet which in turn brings dependability to the timing of our cash generation.

This differentiated approach to risk management means that we are comparatively more resilient to market stresses than the majority of our peers.

MANAGE OUR CAPITAL POSITION

We have a disciplined approach to balance sheet management which is articulated through our risk management framework and follows three key principles: protect solvency, optimise free surplus and deliver resilience.

We manage capital within a target shareholder capital coverage ratio of 140% to 180% and manage our Fitch leverage ratio within a target range of 25% to 30%.

We deliver resilience to our capital position by hedging unrewarded risks such as equity, interest rate and currency risks. And we proactively manage rewarded risks, like credit risk, through a well-diversified, defensively positioned asset portfolio that is actively managed.

In addition, regular re-balancing of asset and liability positions is required to ensure that only those assets which deliver appropriate risk-adjusted returns are held within life funds, taking into account any policyholder guarantees.

KEY INITIATIVES AND PROGRESS IN 2020

- The Group's shareholder capital coverage ratio of 164% has been maintained in the middle of our target range of 140% to 180% despite the significant market volatility in 2020 and is testament to our approach to risk management.
- We proactively manage our shareholder capital coverage ratio within our target range and by maintaining this throughout the year we were able to fund the ReAssure deal efficiently whilst also being able to pay our interim dividend and increase our final dividend.
- Capital synergies associated with the acquisition of the Standard Life Assurance businesses benefited the Group Solvency II surplus by £75 million in 2020.
- Capital synergies associated with the acquisition of ReAssure benefited the Group Solvency II surplus by £479 million in 2020 primarily resulting from applying the Group's hedging strategy and the harmonisation of methodologies, including the calculation of transitional measures on technical provisions, and the total expected capital synergies have been increased from £450 million to £600 million.
- The Group made good progress in reducing its BPA capital strain in 2020 from 9% to 8% and reduced average payback periods from 6–7 years in 2019 to 5–6 years in 2020.
- The Group's dynamic hedging approach led to limited economic variances during 2020 with a Solvency II surplus impact of just £0.2 billion for the year.
- Proactive management of our credit portfolio saw us prudently rotate out of UK BBB assets into USD A or better credit assets to enhance our risk profile and deliver capital benefits.
- The Group issued £1.5 billion of debt during the year to fund the ReAssure transaction and had a Fitch leverage ratio of 28% at year end, comfortably within its 25 to 30% target range.
- The Group continued to work closely with the PRA during 2020 on its internal model harmonisation application and expects to submit this in 2021.
- The Board considered the potential impact of a range of scenarios, including very severe ones, on the Group's solvency and liquidity position as a result of COVID-19 and the related market volatility, before concluding that the robustness of our capital position supported the payment of the 2019 final dividend and 2020 interim dividend.

PRIORITIES FOR 2021

- Implement further management actions to enhance the Group's capital position.
- Submit our harmonised internal model application to the PRA.
- Reduce the capital strain associated with writing external BPAs from the 8% achieved in 2020 further towards our target of 5%.
- Optimise our debt funding in line with our maturity profile.

Insight↓

EFFECTIVE RISK MANAGEMENT IN VOLATILE MARKETS

"Our active approach to risk management limited the impact of the unprecedented market volatility seen in the first half of 2020 as markets swung violently in response to the pandemic news. Phoenix reported only a £0.2bn reduction in its Solvency II surplus at H1 2020 due to economic variances and this is testament to the strengths of both our dynamic hedging approach and our prudent risk appetite."

Rakesh Thakrar
Group Chief Financial Officer

How we measure delivery

KPI: Solvency II surplus (£bn)

£5.3bn

2019: £4.4bn (pro forma)

2019	£4.4bn
2020	£5.3bn

WHY IS IT IMPORTANT?

The Solvency II surplus is the regulatory assessment of capital adequacy at PGH plc level.

It is the excess of Eligible Own Funds over the Solvency Capital Requirement.

ANALYSIS

The Group's Solvency II surplus of £5.3 billion has significantly increased compared to prior year (2019: £4.4 billion). Surplus emergence and the strong delivery of management actions was partly offset by interest, dividends and costs, as well as the BPA capital strain and economic variances.

KPI: Shareholder capital coverage ratio (%)

164%

2019: 152% (pro forma)

2019	152%
2020	164%

WHY IS IT IMPORTANT?

The Shareholder Capital Coverage Ratio demonstrates the extent to which shareholders' Eligible Own Funds cover the Solvency Capital Requirements.

It is defined as the ratio of the Group Own Funds to Group SCR, after adjusting to exclude amounts relating to unsupported with-profit funds and unsupported Group Pension Schemes.

ANALYSIS

A coverage ratio of 164% remains in the middle of our target range of 140% to 180%.

LINKED: APM REM

KPI: Dividend per share (pence)

47.5p

2019: 46.8p

2018	22.6p	23.4p	46.0p
2019	23.4p	23.4p	46.8p
2020	23.4p	24.1p	47.5p

WHY IS IT IMPORTANT?

The Group's dividend per share helps measure how the Group delivers value to shareholders in accordance with its stable and sustainable dividend policy.

ANALYSIS

The Board has proposed a final dividend of 24.1 pence per share which is a 3% increase on the 2020 interim dividend of 23.4 pence per share reflecting the significant value generated by the ReAssure transaction.

CREATE VALUE AND DELIVER DEPENDABLE CASH GENERATION

Long-term dependable cash generation is a key attribute of Phoenix's business model. It underpins the Group's stable and sustainable dividend while also providing us with the means to fund future growth.

In order to create value, the Group looks to maximise the economic performance of its in-force business and to deliver management actions which increase and accelerate cash flows, while identifying and executing on organic and inorganic growth opportunities.

CREATE VALUE AND DELIVER DEPENDABLE CASH GENERATION

Cash generated by our Life companies and remitted to Group is our key performance metric.

The majority of the Group's cash generation stems from the run-off of in-force business. We harness its key characteristics of predictable fund maturity and liability profiles to deliver a high level of sustainable cash generation. This in turn is used to cover operating costs, fund dividends to shareholders, as well as service and repay outstanding debt. We then look to deploy any surplus cash into value-accretive growth opportunities to bring sustainability and future growth to our cash generation.

There are significant opportunities across our in-force business to increase and accelerate cash flows through the delivery of management actions spanning four key areas: operational management, risk management, restructuring and effective partnerships.

Furthermore, new business written within our Open division brings additional scale to our in-force business and delivers incremental long-term cash generation. This extends the sustainability of the Group's cash generation profile and it is hoped in time it can offset the Heritage run-off.

And finally, value-accretive M&A can yield significant additional cash generation and provide the opportunity to deliver incremental cost and capital synergies.

KEY INITIATIVES AND PROGRESS IN 2020

- At £1.7 billion, the Group delivered record cash generation in the year, exceeding the upper end of its £1.5 to £1.6 billion target range.
- New business written within the Open division delivered incremental long-term cash generation of £766 million in 2020, a record year.
- Our BPA business was the largest new business contributor at £522 million with seven bulk purchase annuity transactions successfully completed with total contracted liabilities of £2.5 billion. The Group invested £228 million of capital to facilitate these transactions.
- A key BPA transaction was the initial buy-in of the Phoenix Group's own Pearl Scheme which unlocks >£100 million of future capital benefits through the release of a share charge that enables the Part VII of our UK life companies.
- In aggregate, the Group delivered £1.3 billion of Solvency II management actions, with £1.1 billion increasing Own Funds and this included £0.5 billion of capital synergies associated with the acquisition of ReAssure (see page 28), cost synergies arising from the Part VII transfer of the L&G business, strategic asset allocation activities including further investment in ERM and the optimisation of matching adjustment portfolios.
- The acquisition of ReAssure Group completed in July, significantly increased our scale and added £7 billion of future cash generation to the Group which supported a 3% increase in the final 2020 dividend.
- ReAssure completed the Part VII transfer of the L&G business during 2020 creating capital synergies of £0.1 billion and also completed the acquisition of Old Mutual Wealth which delivered £290 million of cash generation during the year.

PRIORITIES FOR 2021

- Deliver new 2021 cash generation target of £1.5 to £1.6 billion.
- Deliver strong incremental long-term cash generation from new business and continue to progress with our ambition to deliver Open new business growth that offsets Heritage run-off to prove 'the wedge'.
- Deliver cost efficiencies through the migration of the SLAL customer and IT operating model to the BANCS single platform.
- Deliver integration synergies from the ReAssure transaction.
- Seek further investment opportunities in the BPA market and improve our capital efficiency further.
- Identify and execute additional management actions.
- Continue to assess value-accretive M&A opportunities in line with our clear capital allocation framework.

Insight ↓

DELIVER DEPENDABLE OPEN BUSINESS GROWTH

"As 2020 has demonstrated, BPAs provide a dependable source of new business growth with £522m of long-term cash generation in the year. We are an established player in the BPA market and are building a best-in-class team to grow and expand our business while also reducing the capital strain."

Andy Curran
CEO Savings and Retirement UK & Europe

How we measure delivery

KPI: Operating companies' cash generation (£m)

£1,713m

2019: £707m

2018	£664m
2019	£707m
2020	£1,713m

WHY IS IT IMPORTANT?

Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies. Maintaining strong cash flow delivery underpins debt servicing and repayment as well as financing shareholder dividends and future growth opportunities.

ANALYSIS

Cash remitted reflects the generation of Free Surplus within the life companies and the benefit of management actions implemented in the period. Cash generation in 2020 was £1,713 million and includes £790 million of contribution from ReAssure.

TARGET

- To generate £1.5 to 1.6 billion of cash in 2021
- To generate £4.4 billion of cash across 2021–23

LINKED: APM REM

KPI: Incremental new business long-term cash generation

£766m

2019: £483m

2018	£530m
2019	£483m
2020	£766m

WHY IS IT IMPORTANT?

Incremental new business long-term cash generation represents the new business cash generated by the products sold to new customers in our Open business, including BPA transactions.

Our strategy seeks to leverage the industry drivers of growth to deliver incremental new business cash generation that can offset the run-off of our in-force business. Delivering on our growth aspirations will bring enhanced long-term sustainability to the Group's organic cash generation and also has the potential to support future dividend growth.

ANALYSIS

Incremental new business long-term cash generation of £766 million represents an increase of 59% on the prior year (£483 million) primarily due to a strong performance from our BPA business which contributed £522 million in 2020, up from £235 million in 2019.

LINKED: APM REM

KPI: Operating profit (£m)

£1,199m

2019: £810m

2018	£708m
2019	£810m
2020	£1,199m

WHY IS IT IMPORTANT?

Operating profit is a non-GAAP measure used by management and is considered a more representative measure of performance than IFRS profit or loss after tax as it provides long-term performance information unaffected by short-term economic volatility.

A reconciliation of operating profit of £1,199 million to the IFRS profit after tax of £834 million (2019: £116 million) is included in the Business Review section.

ANALYSIS

Operating profit has increased by £389 million compared to prior year, principally reflecting the contribution of ReAssure following completion of the acquisition.

LINKED: APM

MEET CHANGING CUSTOMER NEEDS

We will continue to improve customer outcomes, broadening the focus of our business so that we can help customers as they journey to and through retirement. This means developing new propositions and services, filling the guidance gap faced by millions of savers, and investing in market leading technology to provide the digital service customers expect. We will build a powerful brand, based on superior consumer insights and engagement, which will be the foundation for future growth.

We are entrusted with the long-term savings, investment and protection of c.14 million customers and we are passionate about helping them secure a life of possibilities.

MEET CHANGING CUSTOMER NEEDS

Our customer mission is to deliver the best service and experience to our customers, fuelled by innovation, a 'can-do' culture and being customer obsessed in everything we do.

More than ever, people need help and guidance from a company which is simple to deal with and which they trust. We deliver this to our customers through strong service delivery and by ensuring we remain relevant, engaging and easy to deal with.

As a result of the ReAssure transaction we were proud to welcome an additional c.4 million customers to the Group. We are continuing to work with ReAssure colleagues to align our approach and learn from best practice to enhance our offering and deliver the best possible experience for all customers across the Group.

COVID-19

At the start of the pandemic we enabled our colleagues to work from home to ensure their safety whilst continuing to deliver a service to our customers.

We strengthened our support to customers, to ensure no customer suffered poor outcomes or harm as a result. We used our Interactive Voice Response and website messaging to keep customers updated, increased our online capability so customers could do more digitally and created a Coronavirus Support Hub.

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Despite the alterations to our way of working the pandemic has required we have continued to provide a highly rated telephony and digital service, and have tracked customer satisfaction scores at 90% or above throughout the year. We have seen a reduction in the number of complaints received in 2020 and we continued to perform well against peers in regards to closure of complaints within eight weeks.

KEY INITIATIVES AND PROGRESS IN 2020

- We extended drawdown capability across the Group so more customers can access their pension benefits in a flexible way, offering SLAL's non-advised drawdown to Phoenix Life customers.
- We continued to support savings through drawdown by offering the option to select from four investment solutions linked to the customer's needs and plans for their retirement.
- Our mobile app for our Standard Life customers now has a 4.5 star app store rating, proving the benefits of this service to our customers.
- We launched our enhanced client analytics tool for workplace clients, delivered in conjunction with our strategic partner TCS.
- We launched a new passive ESG default fund in December 2020.
- We have reduced the ongoing charges for c.20,000 endowment customers, improving the value for money provided by their products.
- We implemented in-scheme drawdown functionality to allow Master Trust customers over 55 to withdraw money from their pension flexibly and leave any money not taken invested for later.
- We implemented MyColleague functionality to enable straight-through processing on journeys including retirements and bereavements.
- We completed a Group-wide research programme looking at vulnerability, to help colleagues understand the functional and emotional needs of customers, so we can support and guide them appropriately.

PRIORITIES FOR 2021

- We continue to focus on customer sustainability, and ensure it is at the core of our customer offerings.
- A range of innovative and digital initiatives will be trialled to support our customers to further engage them with their savings and investments across their life stages.
- We will use insight from our customers to continue to improve our guidance offer and support them in making better decisions.
- We will further enhance how we analyse and act upon feedback to develop our insight approach and help us improve key communications and customer journeys.
- We are expanding the range of investments to provide even more retirement income fund solutions for our customers.
- In collaboration with TCS we are developing a salary-deductible ISA which we plan to launch in 2021.

Insight

"For some of our customers, COVID-19 has heightened existing vulnerabilities or made them vulnerable for the first time. During the year, we adapted our ways of working and strengthened our customer support to ensure we continued to provide the best possible service to all of our customers. I am very proud of the continued service and support we have provided throughout 2020."

John McGuigan
Group Customer Director

How we measure delivery

KPI: Financial Ombudsman Service ('FOS') overturn rate (%)

14%

2019: 17%

2018[1]	17%
2019[2]	17%
2020[3]	14%

WHY IS IT IMPORTANT?

This is an independent view of how firms are handling complaints. It provides us with an opportunity to review and adjust our complaint handling proposition in line with best industry practice.

ANALYSIS

The FOS overturn rate of 14% is significantly below the industry average of 34% and the 'Decumulation, Life and Pensions' category average of 27%.

TARGET

To maintain a FOS overturn target of less than the industry average of 30%.

KPI: Speed of pension transfer payouts – Origo (days)

9.76

2019: 9.69

2018[1]	11.03
2019[2]	9.69
2020	9.76

WHY IS IT IMPORTANT?

This is a recognised industry measure for the speed of processing Pension Transfers, Open Market Options and Immediate Vesting Personal Pensions. It measures the end-to-end time from the date of receipt of a request to transfer to the date the monies arrive with the new pension provider. It allows us to benchmark performance and our overall servicing and claims proposition against our peers.

ANALYSIS

The Group's pension transfer times are better than the industry target.

TARGET

Twelve days, in line with the industry stated target for Origo Pension Transfers.

KPI: Customer satisfaction score (%)

94%

2019: 94%
Phoenix Life only

2018	93%
2019	94%
2020	94%

WHY IS IT IMPORTANT?

This measure highlights how satisfied customers are with Phoenix's telephony servicing proposition.

ANALYSIS

To achieve a score of 94% reflects our commitment to ensuring customers are satisfied with the service they receive from Phoenix.

TARGET

To maintain a customer satisfaction score which is 93% or above.

LINKED: REM

KPI: Customer satisfaction score (%)

90%

Standard Life only

During 2020 we evolved the way in which we measured customer satisfaction in SLAL. This is the first year of reporting in this manner.

WHY IS IT IMPORTANT?

This measure highlights how satisfied customers are with Standard Life's telephony servicing proposition.

ANALYSIS

To achieve a score of 90% reflects our commitment to ensuring customers are satisfied with the service they receive from Standard Life.

TARGET

To maintain a customer satisfaction score which is 90% or above.

LINKED: REM

1 2018 figures, Phoenix Life only.
2 2019 figures, combined Phoenix Life and SLAL.
3 FOS overturn rate shown as H2 2019 and H1 2020.

PUTTING SUSTAINABILITY AT THE HEART OF OUR BUSINESS

As the UK's largest long-term savings and retirement business we have a clear role to play in society. We will be driven by our purpose in the decisions we take, by putting sustainability at the heart of our business. We are focused on delivering for our c. 14 million customers and investing our £338 billion of assets under administration in a sustainable manner. We are committed to reducing our environmental impact, investing in our people and culture, supporting our communities and working responsibly with suppliers.

Our purpose is helping people secure a life of possibilities. We will play an integral role in creating a more sustainable future for all and have therefore put sustainability at the heart of our business as a key strategic priority.

PUTTING SUSTAINABILITY AT THE HEART OF OUR BUSINESS

OVERVIEW

Our sustainability strategy is fully aligned to our purpose, to our enterprise strategy and to our corporate values. Our strategy has evolved during 2020, as the world we operate in and the needs of our stakeholders' change.

We reassessed the materiality of Environmental, Social and Governance ('ESG') issues which highlighted a growth in the importance of financial literacy and inclusion, digitalisation and responsible investment.

Our sustainability strategy has a refreshed pillar design, focus and ambitions to ensure that it meets the changing needs of our many stakeholders.

Delivering for our customers

We are committed to contributing to the closure of the growing pensions and savings gap by addressing the diverse needs of society and fostering better financial and social wellbeing.

We aim to deliver product optionality to enable improved financial wellbeing across our differing customer needs, and remove barriers to inclusion through well developed and targeted education programmes.

Innovative digital solutions will offer greater transparency on our ESG offering and increase customer engagement, empowerment and confidence. We will continue to develop on customer vulnerability initiatives.

Fostering responsible investment

We are committed to factoring ESG matters into our investment decision-making process. We will play a vital role in decarbonising the capital markets and financing the transition to a sustainable, low carbon economy.

During 2020, we became a signatory to the UN-supported Principles of Responsible Investment which, as the largest UK asset owner signatory in the UK, demonstrates our commitment to embed ESG factors in investment decision-making and stewardship activities.

Our net-zero commitment

We are creating actions to respond to the need to reduce greenhouse gas emissions and accelerate the transition to a low-carbon future.

To support our activity on climate change, we are a signatory to Business Ambition for 1.5˚C and the recommendations of the Task Force for Climate-Related Financial Disclosures ('TCFD').

We have set a net-zero carbon commitment in our operations by 2025 and a net-zero commitment in our investment portfolio by 2050.

KEY INITIATIVES AND PROGRESS IN 2020

We delivered all commitments outlined in our 2019 Sustainability Report, including:

- Expanding the range of Responsible Investment funds offered to pension savers, including an ESG Default solution for our workplace business.
- Launching a new four pillar Diversity and Inclusion strategy to create the culture that reflects the nature of our business and ensures that every colleague is treated with dignity and respect.
- Deepening our understanding of our customers' sustainability needs through a series of customer research focus groups.

PRIORITIES FOR 2021

- Undertake customer research for product innovation and increase the ESG fund content offering to customers.
- Integrate material ESG elements into our investment management process and establish regular reporting to our Board on known and emerging ESG risks.
- Implement our net-zero carbon plans and deliver target footprint reduction for 2021.
- Enhance our diversity data to support the aims of our people agenda, enrich our reporting, and tailor our actions.
- Launch new ways of working that support our culture and colleague wellbeing and delivers flexibility for our colleagues.

Read more about our **Sustainability strategy, aspirations and progress to date → please refer to our separate 2020 Sustainability Report**

Read more about our **TCFD reporting → page 67**

Insight ↓

OUR APPROACH TO MAKING A DIFFERENCE

"We are embedding sustainability into everything that we do, and have enhanced our strategy to address the critical trends impacting our industry including societal issues such as an ageing population, financial uncertainty, the evolving digitisation of businesses, and the responsibility to address global environmental challenges."

Claire Hawkins
Director of Corporate Affairs & Investor Relations

How we measure delivery

2021 target: Review responsible investment content of workplace default solutions (Active Plus and Passive Plus)

WHY IS IT IMPORTANT?

As our customers consider where and how to save, they want their money put to good use and we have seen a growing awareness and demand from customers to understand how their investments take into account ESG factors. We will focus on product innovation which will enable greater customer choice, through a broad range of ESG funds and products to suit evolving customer preferences. We will complete a review of the responsible investment content of our promoted workplace default solutions, Active Plus and Passive Plus. Stakeholder engagement and implementation of the changes will then follow.

ANALYSIS

These positive changes will impact over 3.3 million customers and £28 billion of assets under management in these solutions.

2021 target: 60% of shareholder illiquid asset origination in sustainable investments (excluding ERM)

WHY IS IT IMPORTANT?

Responsible investment is at the core of our strategy and will deliver benefits to policyholders, investors and society. Expansion into sustainable assets is a core part of our responsible investment strategy. We will increase investment in sustainable assets within the shareholder and policyholder business. We look forward to playing a key role in society over the coming years; putting our assets to good use and supporting our Company purpose of helping people secure a life of possibilities.

ANALYSIS

We have set a target of 60% of illiquid asset origination as sustainable investments for the shareholder portfolio.

2021 target: 20% reduction in scope 1 and 2 emissions from occupied premises per full time employee intensity (from 2020 value of 1.2 tonnes per FTE)

WHY IS IT IMPORTANT?

We are committed to the need to reduce greenhouse gas emissions and accelerate the transition to a low-carbon future, and have committed to achieving net-zero across all emission scopes by 2050. We have begun the work of identifying the best approach for this by setting our first milestone to bring our operations to net-zero carbon by 2025. We are currently implementing net-zero plans including developing our science-based targets.

ANALYSIS

Scope 1 emissions are generated from within our operations and scope 2 are purchased energy emissions to power our operations. We will remove wasteful emissions and switch to renewables.

You can find out more about how we are delivering on our ambitious sustainability commitments in our comprehensive 2020 Sustainability Report at: **www.thephoenixgroup.com/sustainability/reports**

INSPIRE OUR PEOPLE

As Phoenix has grown organically and through acquisition, we have developed talent with the specialist skills that have enabled the business to succeed. We are now building the capabilities and culture which will deliver success in the future, focusing relentlessly on customer needs and outcomes. We will retain and attract top talent through creating a rich and diverse working environment and aim to be the employer of choice in our sector.

STRATEGIC REPORT

We are committed to making Phoenix the best place any of us have ever worked. This includes embedding our culture, engaging colleagues and holding everyone accountable for creating a truly diverse workforce. We are also dedicated to adapting to the changing way of working in the best interests of all colleagues.

INSPIRE OUR PEOPLE

COVID-19

The pandemic has brought about a seismic shift in the way that we operate. Central to this has been keeping colleagues safe, customers and shareholders supported and satisfied, and supporting the communities where we operate.

We responded swiftly to the pandemic, ensuring colleagues across the Group stayed safe and were successfully set up to work from home, supporting customers as normal. We then focused our attention on the wellbeing of colleagues and ensuring we continued to offer an inclusive, attractive and safe work environment. Our support included:

- Working-from-home expense provision for colleagues.
- Additional five days' parental emergency leave and carer's leave made available.
- Snapshot surveys to gather real-time, actionable insights into what colleagues need and how they are feeling.
- A host of wellbeing support and guidance.
- An IT subsidy for parents and guardians to support them with home schooling.
- Colleague engagement events throughout December.

KEY INITIATIVES AND PROGRESS IN 2020

- Our new Phoenix Story was launched in July 2020 and was developed collaboratively with our colleagues to reflect our purpose-led culture and the values that we strive for.
- The October colleague engagement survey demonstrated that despite the challenges of the pandemic, overall engagement was recorded as 75%, an increase of 10% on the previous year.
- We also saw a 16-point rise to 71% in advocacy of Phoenix as a place to work and 87% of colleagues are committed to the success of Phoenix.
- We launched the 'Who We Are' application which allows colleagues to share their diversity data confidentially, showing an accurate demographic make-up of the Group.
- We remained a signatory to the Women in Finance Charter. At year end, we had women in 21% of the top 100 roles, increasing to 24% in Q1 21 with known hires (target 30%), 36% of the Group's green/amber successors are women (target 40%) and the Group-wide mean gender pay gap is 24.1% (target 22%).
- We implemented a new Talent and Capability Review process which has enabled us to strengthen senior teams and succession plans through targeted promotions, functional moves and external hires. As a result, our percentage of green/amber women successors will increase to 44% in 2021.
- The number of colleagues on our mentoring scheme doubled to over 200, and we participated in the 30% Club.
- Our new learning offering, Flourish at Phoenix, brings together all the resources colleagues need to grow their own future and move forward in their careers.
- We continued to address local societal issues through donations of skills, money, time and resources: we donated £1 million to charities supporting those most vulnerable from coronavirus. In total, support to charities in UK and Europe amounted c. £2 million across 2020. Due to the pandemic, existing UK corporate partnerships were extended to year end. In the absence of fundraising we widened our charity matching programme.
- All status and length of service-related benefits have been removed to focus on rewarding all colleagues equally based on their own contribution to our business.
- Our upper-quartile family policy offers all new parents 52 weeks' leave, with six months fully paid.

PRIORITIES FOR 2021

- Embed an employee culture that is forward-looking, customer-obsessed, accountable and empowered.
- Deliver new ways of working that support our culture and colleague wellbeing and delivers flexibility for our colleagues.
- Create a continuous listening environment to understand colleague engagement monthly and generate the agility to respond to the moments that matter.
- Create a rejuvenated employee value proposition that creates a highly engaged workforce, attracts and nurtures talent, supports colleagues and reflects our Diversity and Inclusion strategy.
- Maintain support for our communities through volunteering, fundraising and engagement.

Insight

CREATING A POSITIVE IMPACT

"We want to make Phoenix the best place any of us have ever worked. Building a strong culture and creating an engaging environment that drives empowerment and accountability for our colleagues, supports changing ways of working and genuinely embraces diversity of thought and perspective, are fundamental to achieving this."

Sara Thompson, Group HR Director

Our committed gender targets

Our Women in Finance Charter commitments

2021 target: Minimum of 30% of our top 100 roles (as defined by base salary) to be occupied by women

21%

2021 target: Minimum of 40% of green/amber successors to be women

36%

2021 target: Group-wide gender pay gap to be less than or to equal 22%

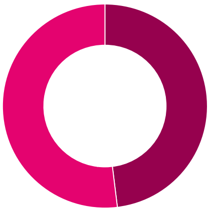
24.1%

Based on contracted hires as at 31 December 2020, we will have 24% of our top 100 roles occupied by women and 44% green/amber successors identified as women.

Total workforce

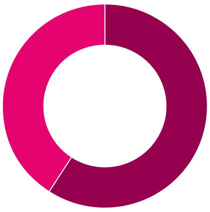
	2020	2019
Total employees	**7,653**	4,417
Male	**3,709**	2,270
Female	**3,944**	2,147
Directors (includes Non-Executive Directors)	**13**	12
Male	**9**	8
Female	**4**	4
Executive Committee[1]	**10**	9
Male	**8**	8
Female	**2**	1
Workforce that is of Black, Asian or Minority Ethnic ('BAME') background	**557**[2]	207[3]

Total workforce by gender



Female 52%
Male 48%

Direct reports to senior management by gender



Female 41%
Male 59%

1 Excludes Group CEO and Group CFO, who are recorded as Directors.
2 Based on information disclosed by employees. Data not recorded for SunLife and Germany/Austria employees (26.3% workforce).
3 Based on information disclosed by employees. Data not recorded for SunLife and Standard Life Assurance Limited employees (55% workforce).

INSPIRING CONFIDENCE THROUGH FINANCIAL DELIVERY

Rakesh Thakrar, Chief Financial Officer

2020 was a year of exceptionally strong performance for the Group. Despite significant market volatility experienced as a result of COVID-19 all of the Group's financial targets were met or exceeded. This demonstrates the Group's resilience and continued focus on growth through new business.

IFRS

The Group generated an increased operating profit of £1,199 million for the year (2019: £810 million), reflecting the contribution of the ReAssure businesses for the five-month period post-completion of the acquisition on 22 July and increased Bulk Purchase Annuity ('BPA') transaction activity in the period.

The IFRS profit after tax attributable to owners for the year is £834 million (2019: £116 million). The increase primarily reflects the increased operating profit together with a gain recognised on the acquisition of the ReAssure businesses of £372 million and gains on hedging positions held in the shareholder funds.

CASH

Cash generation remains our key reporting metric.

The Group's cash generation of £1,713 million in the year allowed the Group to exceed the upper end of its £1,500 to £1,600 million target range for that period, and includes £690 million of cash remitted by the ReAssure Life Companies in the period prior to completion of the acquisition.

The Group now monitors an additional cash metric, Long-Term Free Cash ('LTFC'). LTFC provides a measure of the Group's long-term cash available for operating costs, interest, growth and shareholder returns. Group LTFC as at 31 December 2020 was £13.4 billion (2019: £14.1 billion) and is stated on pro forma basis to reflect the £0.2 billion reduction in future long-term cash generation arising as a result of the disposal of the Wrap Self-Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') businesses and also £0.3 billion for the adverse impact of the expected increase in the rate of corporation tax from April 2023 to 25%, announced in the March 2021 budget. The Group's ambition is to replenish the cash that it uses year-on-year through growth in long-term cash generation and the delivery of management actions.

RESILIENCE

The Group's capital position of £5.3 billion (2019: £4.4 billion pro forma) remained resilient in the year, and our shareholder capital coverage ratio of 164% (2019: 152% pro forma) remains comfortably in the middle of our target range of 140% to 180%. Despite the market volatility experienced in the year, we have seen only a £0.2 billion strain from economics, reflecting the impact of the Group's hedging programme and active approach to credit portfolio management. The closing surplus has been positively impacted by the delivery of capital synergies following the acquisition of the ReAssure businesses, together with management actions delivered in the year and the issuance of capital qualifying subordinated debt.

GROWTH

The Group's Assets under Administration ('AUA') increased to £337.7 billion in the year (2019: £248.3 billion). The increase in the year is largely driven by the acquisition of the ReAssure businesses on 22 July, net inflows from the Group's Open business, and net positive market movements. These factors have been partly offset by net outflows from the Group's Heritage businesses.

Long-term cash generation is expected to increase by £766 million as a result of new business transacted in the year (2019: £483 million). This includes the impact of seven BPA transactions executed in the period, together with new business from our Open segment.

LOOKING AHEAD

Phoenix remains on track to achieve its long-term cash generation target for the five-year period 2019 to 2023 of £6.8bn. The target has been upgraded to reflect the acquisition of ReAssure, together with the impact of new business and management actions delivered in 2019 and 2020. The Group looks forward to the future from a position of financial strength.

ALTERNATIVE PERFORMANCE MEASURES

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP') or statutory reporting framework. These metrics are known as Alternative Performance Measures ('APMs').

The Group's strategic focus prioritises the generation of sustainable cash flows from its operating companies through the margins earned on different life and pension products and the release of capital requirements. Performance metrics are monitored where they support this strategic purpose, which includes ensuring that the capital strength of the Group is maintained.

As a result, GAAP measures typically used to assess financial performance, such as IFRS profit after tax, are considered by the Board to be of lower importance when assessing Phoenix's performance against its strategy. IFRS results exclude any changes to the capital requirements and therefore do not fully reflect the performance of the Group.

As such, the key performance indicators for the Group mainly focus on cash generation and capital strength. Further information on the Group's APMs can be found on page 309, including definitions, why the measure is used and if applicable, how the APM can be reconciled to the nearest GAAP measure.

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 309 for further details of this measure. Maintaining strong cash flow delivery underpins debt servicing and repayments, shareholder dividends as well as opportunities for further M&A and investment in new business.

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.

CASH RECEIPTS

Cash generated by the operating companies during 2020 was £1,713 million (2019: £707 million). This includes £690 million of cash remitted by the ReAssure Life companies in the period prior to completion and accruing to the Group under the 'locked box' acquisition completion mechanism. The total is reported net of a £50 million contribution into the Group's Irish domiciled subsidiary, Standard Life International Designated Activity Company ('SLIDAC'), in order to strengthen its capital position following the fall in yields during the period.

USES OF CASH

The operating expenses of £42 million (2019: £43 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Annual pension scheme contributions of £80 million (2019: £50 million) were made during the year and include total contributions of £70 million into the Pearl Group Scheme and £10 million into the Abbey Life Scheme, which includes £4 million paid into Charged Accounts and held in escrow. Following the signing of the new Commitment Agreement with the Scheme Trustees, the Pearl Group Scheme contributions included the balance of the remaining contributions under the 2012 Pensions Agreement (£37 million) in addition to the monthly instalments paid up to this date. No further contributions are expected to be paid to the Pearl Group Scheme.

Debt interest of £184 million (2019: £112 million) increased in the year as a result of the cash settlement of a full annual coupon on the €500 million Tier 2 bond issued in September 2018, the first coupons on the US$750 million Tier 1 bond issued in January and the US$500 million Tier 2 bond issued in June. Additionally debt interest includes a semi-annual coupon paid in the post completion period on three debt instruments which were substituted to the Group as part of the acquisition of the ReAssure businesses (£250 million Tier 2, £500 million Tier 2 and £250 million Tier 3). Coupons on the £500 million Tier 2 bond issued in April are not due until 2022.

NON-OPERATING NET CASH OUTFLOWS

Non-operating net cash outflows of £66 million (2019: £137 million) principally comprises £156 million of recharged staff costs and Group expenses associated with corporate-related projects, including the transition programmes, partly offset by £115 million of cash realised or posted as collateral in respect of derivative instruments entered into by the holding companies to hedge the Group's exposure to currency and equity risk. The remainder of the balance includes £22 million of expenses associated with the acquisition of the ReAssure businesses and £3 million of net other items.

SHAREHOLDER DIVIDEND

The shareholder dividend of £403 million represents the payment of £169 million in May for the 2019 final dividend and the payment of the 2020 interim dividend of £234 million in September. The 2020 final dividend per share proposed is 24.1 pence.

DEBT ISSUANCE (NET OF FEES)

The £1,445 million debt issuance in the year comprises the net proceeds of the £572 million (US$750 million) Tier 1 bond in January, the £500 million Tier 2 bond issuance in April and the £398 million (US$500 million) Tier 2 bond issuance in June.

COST OF ACQUISITIONS

Cost of acquisitions of £1,265 million relates to the cash consideration settlement to finance the acquisition of the ReAssure businesses.

REASSURE HOLDING COMPANY CASH ACQUIRED

Cash within the ReAssure holding companies of £580 million was recognised on acquisition of those entities on 22 July.

SUPPORT OF BPA ACTIVITY

£228 million (2019: £98 million) of funding has been provided to the life companies to support BPA new business, including the buy-in transaction with the Pearl Group Scheme.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash and cash equivalents at 1 January	**275**	346
Operating companies' cash generation:		
Cash receipts from Life Companies	**1,073**	932
Cash receipts from Management Services companies	**–**	25
Cash remittances to Standard Life International	**(50)**	(250)
Total cash receipts[1]	**1,023**	707
Uses of cash:		
Operating expenses	**(42)**	(43)
Pension scheme contributions	**(80)**	(50)
Debt interest	**(184)**	(112)
Non-operating cash outflows	**(66)**	(137)
Uses of cash before debt repayments and shareholder dividend	**(372)**	(342)
Shareholder dividend	**(403)**	(338)
Total uses of cash	**(775)**	(680)
Debt issuance (net of fees)	**1,445**	–
Cost of acquisitions	**(1,265)**	–
ReAssure Holding Company cash acquired	**580**	–
Support of BPA activity	**(228)**	(98)
Cash and cash equivalents at 31 December	**1,055**	275

1 Total cash receipts include £108 million received by the holding companies in respect of tax losses surrendered (2019: £112 million) and exclude £690 million of cash generation from the ReAssure Life Companies arising in the period prior to completion.

All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' section on page 309 for further details of these measures.
All amounts in the Business Review section marked with a 'REM' are KPIs linked to executive remuneration. See 'Directors' Remuneration Report' on page 124 for further details of executive remuneration including the financial and non-financial performance measures on which it is based.

Illustrative stress testing[1]	**1 January 2021 to 31 December 2023 £bn**
Base case three-year cash guidance	**4.4**
Following a 20% fall in equity markets	**4.4**
Following a 12% fall in property values[2]	**4.2**
Following a 73bps interest rates rise[3]	**4.7**
Following a 88bps interest rates fall[3]	**4.0**
Following credit spread widening[4]	**4.3**
Following credit downgrade: immediate full letter downgrade on 20% of portfolio[5]	**3.8**
Following 6% decrease in annuitant mortality rates[6]	**3.5**
Following a 10% change in lapse rates[7]	**4.2**

1 Assumes stress occurs on 1 January 2021 and that there is no market recovery.
2 Represents an average fall in property values of 12%.
3 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 interactions of rates with other correlated risks including longevity.
4 Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
5 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g from AAA to AA, AA to A etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
6 Equivalent of six months increase in longevity applied to the annuity portfolio.
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

TARGET CASH FLOWS

The Group set a short-term cash generation target of £1,500 to £1,600 million for 2020 (including cash generation from the ReAssure Life companies in the period prior to completion) and with £1,713 million of cash generation achieved, the Group has exceeded the upper end of its target range.

The Group had a cash generation target of £3.8 billion for the five-year period 2019 to 2023. Following the acquisition of the ReAssure businesses, this was increased by £2.7 billion to £6.5 billion. £0.7 billion was achieved in 2019 with a further £1.7 billion delivered in 2020.

The target has been updated by £0.3 billion, reflecting £0.2 billion of new business written in 2019 and 2020, £0.3 billion to reflect over-delivery of management actions in 2020 offset by £(0.2) billion for the impact of net adverse economic and market movements, notably credit downgrades in the period.

This takes the target up to £6.8 billion, of which £4.4 billion remains to be delivered over 2021 to 2023. The resilience of the target is demonstrated by the illustrative stress testing in the table to the left.

EXPECTED CASH FLOWS AFTER 2024

There is an expected £13.3 billion of cash to emerge from 2024. This does not include any management actions from 2024 onwards or any additional value from future new business from the Group's Open business and BPA transactions. It also does not reflect the impact of any future M&A.

£13.4bn

Group Long-Term Free Cash

APM

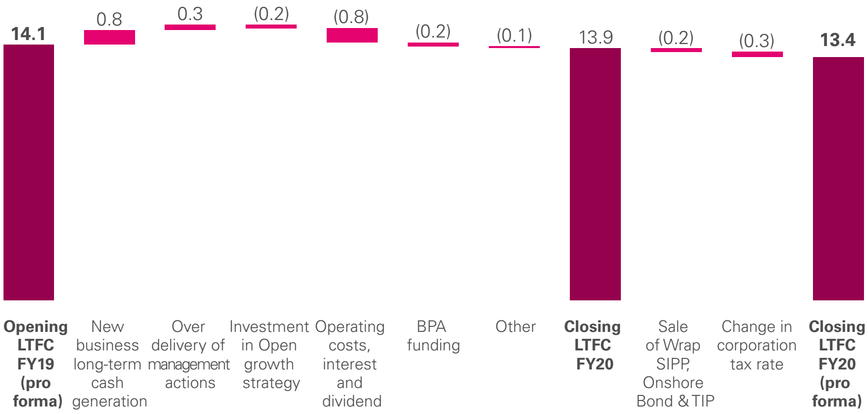
£1,713m

Operating companies' Cash generation

APM REM

	Group LTFC Pro forma Year ended 31 December 2020[2] £bn	Group LTFC Pro forma Year ended 31 December 2019[1] £bn
Long-term in-force cash generation	17.7	19.0
Less M&A and transition costs	(0.3)	(0.2)
Plus closing Holding Company cash	1.0	0.3
Long-term Group cash	**18.4**	**19.1**
Less shareholder debt	(5.0)	(5.0)
Group Long-Term Free Cash	**13.4**	**14.1**

2020 change in Group Long-Term Free Cash



GROUP LONG-TERM FREE CASH

The Group now monitors an additional cash metric, Long-Term Free Cash ('LTFC'). Group LTFC is comprised of long-term cash to emerge from in-force business, plus holding company cash less M&A and transition costs and shareholder debt outstanding. Group LTFC provides a measure of the Group's total long term cash available for operating costs, interest, growth and shareholder returns.

Increases in Group LTFC will be driven by the sources of long-term cash i.e. new business and over-delivery of management actions.

Decreases in Group LTFC will reflect the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends.

In addition, in 2020, £0.2 billion has been set aside for investment in our growth strategy. This reflects a c.£20 million of cost per annum, capitalised for 10 years to invest in enhancing capabilities in our Open businesses, Asset Management, our brand and in our sustainability strategy.

The other movement of £0.1 billion includes the cash settlement with SLA in relation to historic legacy items and a small net impact from economics and assumption changes.

The impact of the sale of Wrap SIPP, Onshore Bond and 'TIP' to SLA is expected to result in a £0.2 billion reduction in Group LTFC. Further details are set out on page 289 in events after the reporting period.

The impact of the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget is expected to result in a £0.3 billion reduction in Group LTFC.

The Group's ambition is to replenish cash that it uses year-on-year through growth in long-term cash generation and management actions.

Read more about our **APM section → page 309 for further details of this measure**

1 Stated on a pro forma basis as if the acquisition of the ReAssure businesses took place on 31 December 2019.
2 Stated on a pro forma basis to reflect the £0.2 billion reduction in future long-term cash generation as a result of the disposal of Wrap SIPP, Onshore Bond and TIP and £0.3 billion for the adverse impact of the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget.

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS

The Group's AUA represent assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS statement of consolidated financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.

AUA provides 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 ability to deliver new business growth.

A reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 305. Please see the Alternative Performance Measure ('APM') section on page 309 for further details of this measure.

GROUP AUA

Group AUA as at 31 December 2020 was £337.7 billion (2019: £248.3 billion). The increase in the year is largely driven by the acquisition of the ReAssure businesses on 22 July, net inflows from the Group's UK Open business, and net positive market movements. These factors have been partly offset by net outflows from the Group's UK Heritage businesses.

UK HERITAGE NET FLOWS

UK Heritage net outflows of £(7.3) billion (2019: £(6.2) billion[1]) reflect policyholder outflows on claims such as maturities, surrenders and annuities in payment, net of total premiums received in the period from in-force contracts. The acquisition of the ReAssure Heritage business increased net outflows relative to the prior year.

UK OPEN FLOWS

The UK Open segment experienced gross inflows of £12.4 billion (2019: £11.7 billion[1]) during the year, of which £7.7 billion (2019: £8.2 billion) was received in respect of new contracts transacted in the period.

Gross inflows in Retirement Solutions, which encompasses our Annuity and BPA business, experienced £3.2 billion (2019: £1.9 billion) of inflows. This includes £0.7 billion arising from buy-in transactions with the Group's Pension Schemes and £1.8 billion (2019: £1.1 billion) of new business inflows arising from BPA transactions completed in the year.

Gross inflows in the Workplace product of £4.7 billion (2019: £4.9 billion) were impacted by challenging market conditions relating to COVID-19, however inflows have trended back to pre-COVID-19 levels during the latter months of 2020.

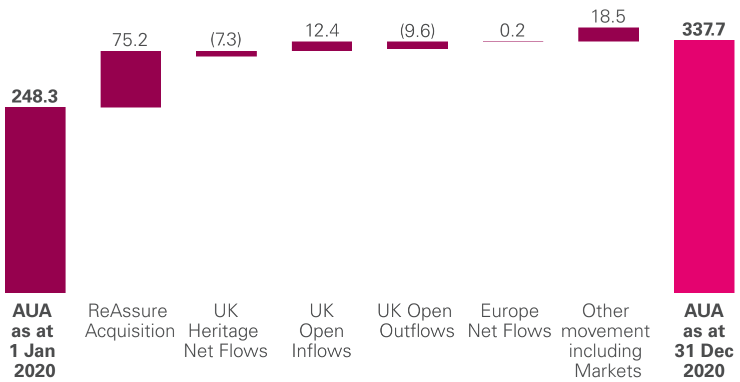
Gross inflows in the Customer Savings & Investment ('CS&I') business unit, which encompasses our Wrap and Retail products, of £4.2 billion (2019: £4.9 billion) were also adversely impacted by challenging market conditions relating to COVID-19, resulting in reduced volumes of inflows.

Outflows for the UK Open business were £(9.6) billion (2019: £(9.8) billion[1]) mainly due to run-off, resulting in net inflows of £2.8 billion (2019: £1.9 billion).

EUROPE NET FLOWS

The European business contributed a small net inflow of £0.2 billion (2019: small net outflow of £(0.1) billion) to the Group's AUA.

Movement In AUA (£bn)



1 2019 has been restated to reflect the revised definition of the UK Open segment which now includes the Group's annuity and BPA business.

£766m
Incremental long-term cash generation
APM REM

£338bn
Assets under Administration
APM

£362m
New business contribution
APM REM

OTHER MOVEMENTS INCLUDING MARKETS

AUA increased by £18.5 billion (2019: £26.4 billion) as a result of other movements, largely driven by the net positive impacts of market movements, with the impact of falling yields on the value of the Group's debt security portfolios, rises in several overseas equity markets and a weakening of sterling, more than offsetting the impact of declining UK equities performance.

NEW BUSINESS CONTRIBUTION

We monitor new business contribution as the Group's measure of the future value delivered through the writing of new business.

New business contribution represents the increase in Solvency II shareholder Own Funds (net of tax) arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk-free rate.

The new business contribution metric now includes all business written by the Group's Open business units, including Retirement Solutions, having previously excluded the Group's annuity and BPA activity.

New business contribution for 2020 was £362 million (2019: £199 million[1]), which benefited significantly from the increase in new BPA deals written, partially offset by the impacts from COVID-19 on gross inflows where sales volumes within both the CS&I (Wrap SIPP product) and European business were lower than the prior year.

INCREMENTAL LONG-TERM CASH GENERATION

Our incremental long-term cash generation measure demonstrates 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. Incremental long-term cash generation increased to £766 million (2019: £483 million)[2], which includes £522 million from our Retirement Solutions business unit.

The incremental long-term cash generation split by business unit is shown in the table at the bottom of the page.

2020 has benefited from improved BPA performance with record incremental long-term cash generation of £350 million (2019: £235 million) reflecting an increase in volume of transactions but also improved deal economics. The average payback period reduced from 6–7 years in 2019 to 5–6 years.

Seven BPA transactions (including the buy-in transaction mentioned below) were completed in the year, reflecting the Group's selective and proportionate approach to its participation in this market.

Following the signing of the new Commitment Agreement with the Scheme Trustees the Group has also recognised £172 million of incremental long-term cash generation as a result of the buy-in transaction with the Pearl Group Scheme.

For our Workplace business unit incremental long-term cash generation has remained resilient despite the effects of COVID-19.

CS&I and Europe incremental long-term cash generation were impacted by the effects of COVID-19 on gross inflows with sales volumes lower than the prior year.

SunLife has seen an increase in incremental long-term cash generation due to an increase in sales volumes during the year.

Business unit	**Year ended 31 December 2020 £m**	Year ended 31 December 2019[2] Restated £m
Retirement Solutions	**522**	235
Workplace	**140**	155
Customer Savings & Investment (CS&I)	**56**	59
Europe	**25**	26
SunLife	**23**	8
Incremental long-term cash generation	**766**	483

1 2019 has been restated to reflect the revised definition of the UK Open segment which now includes the Group's annuity and BPA business.
2 2019 has been restated to include incremental long-term cash generation from SunLife.

CAPITAL MANAGEMENT

GROUP SOLVENCY II SURPLUS

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.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200 year event'.

The Group has approval from the PRA for the use of its Internal Model ('Phoenix Internal Model') to assess capital requirements, the scope of which was extended to include the acquired AXA Wealth and Abbey Life businesses in March 2017 and March 2018 respectively.

The Standard Life Assurance businesses determine their capital requirements in accordance with an approved Internal Model ('Standard Life Internal Model'), which was in place prior to the acquisition of the Standard Life Assurance businesses. The one exception to this is SLIDAC, the Group's Irish subsidiary, which remains on Standard Formula.

The Standard Formula is also used in the determination of the capital requirements for the acquired ReAssure businesses.

As a result, the Group currently uses a Partial Internal Model to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and the Standard Formula, without further diversification. A harmonisation programme to combine the two Internal Models into a single Internal Model is ongoing.

CHANGE IN GROUP SOLVENCY II SURPLUS (ESTIMATED)

The Group Solvency II surplus has increased to £5.3 billion (2019 pro forma: £4.4 billion). In this section, we focus on an analysis of the movement in the Group's Solvency II surplus on a pro forma basis as if the acquisition of the ReAssure businesses took place on 31 December 2019. Further details regarding the actual comparative position as at 31 December 2019 are set out in the additional capital disclosures on page 307.

During the year, total proceeds (net of issue costs) from the issuance of hybrid debt were £1.4 billion, comprising the US$750 million Tier 1 bond, £500 million Tier 2 bond and US$500 million Tier 2 bond. On the pro forma basis, £1.2 billion of the debt issued to fund the cash consideration for the acquisition of ReAssure was assumed to have been issued on 31 December 2019. Remaining proceeds of £0.2 billion provides additional flexibility for the refinancing of existing Phoenix borrowings and increased the surplus in the year.

Surplus generation and the impact of the reduction in capital requirements for the Group added £0.6 billion to the surplus during the year.

Management actions undertaken increased the surplus by £1.3 billion. This includes £0.5 billion in respect of capital synergies associated with the acquisition of the ReAssure businesses, primarily resulting from the implementation of additional hedging to protect the value of the acquired business and harmonisation of methodologies for the calculation of transitional measures on technical provisions. The £0.8 billion of other management actions includes expense synergies arising upon the Part VII transfer of the L&G Mature Savings business, further investment in Equity Release Mortgage ('ERM') assets, additional strategic asset allocation activities and the optimisation of matching adjustment portfolios.

£5.3bn

Group Solvency II surplus (estimated)

164%

Group Shareholder Capital Coverage ratio (estimated)

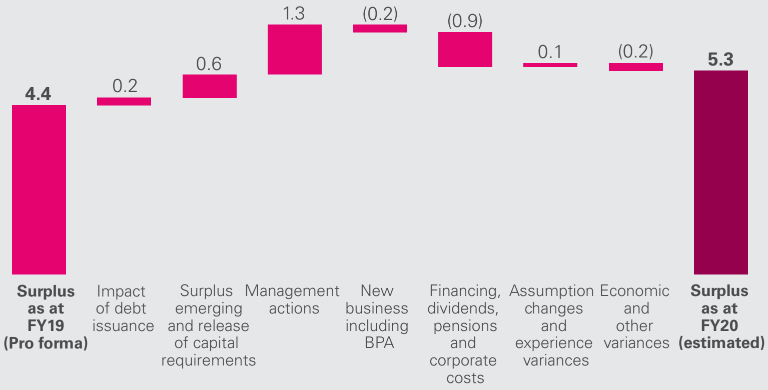
APM REM

The Group Solvency II surplus position at 31 December is set out in the table below:

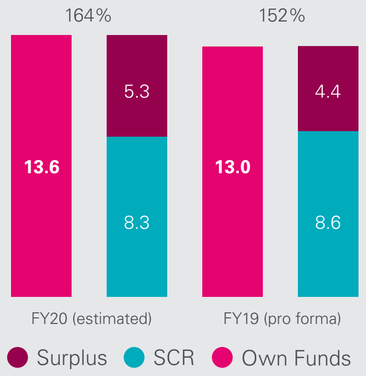
	Estimated position as at 31 December 2020 £bn	Pro forma[4] 31 December 2019 £bn
Own Funds[1]	**16.8**	15.6
SCR[2]	**(11.5)**	(11.2)
Surplus[3]	**5.3**	4.4

1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.
2 The SCR reflects the risks and obligations to which Phoenix Group Holdings plc is exposed.
3 The surplus equates to a regulatory coverage ratio of 147% as at 31 December 2020 (2019 pro forma: 140%).
4 Stated pro forma as if the acquisition of the ReAssure businesses took place on 31 December 2019.

Change In Group Solvency II Surplus (£bn)



Group Shareholder Capital Coverage Ratio (£bn)



The impact of new business written during the year reduced the surplus by £0.2 billion. This primarily reflects the capital strain associated with Bulk Purchase Annuity ('BPA') transactions executed in the year.

Financing costs, pension contributions, dividend payments (including accrual for the 2020 final dividend) and corporate expenses amount to £0.9 billion and reduced the surplus in the year.

Assumption changes and experience variances increased the surplus by £0.1 billion. This includes the positive impact of changes to longevity assumptions, partially offset by an increase to the provision for the expected costs associated with the delivery of the Standard Life transition programme and the strengthening of actuarial assumptions in respect of ERM and persistency.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion, driven by the net adverse impact of economic and market movements in the year, notably falling yields and credit downgrades experienced during the period.

Illustrative stress-testing	Estimated PGH Solvency II Surplus £bn
Base: 1 January 2021	**5.3**
Following a 20% fall in equity markets	**5.3**
Following a 12% fall in property values[2]	**5.1**
Following a 73bps interest rates rise[3]	**5.4**
Following a 88bps interest rates fall[3]	**5.2**
Following credit spread widening[4]	**5.1**
Following credit downgrade: immediate full letter downgrade on 20% of portfolio[5]	**4.8**
Following 6% decrease in annuitant mortality rates[6]	**4.4**
Following a 10% change in lapse rates[7]	**5.0**

1 Assumes stress occurs on 1 January 2021 and that there is no market recovery.
2 Represents an average fall in property values of 12%.
3 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 interactions of rates with other correlated risks including longevity.
4 Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
5 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g from AAA to AA, AA to A etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
6 Equivalent of six months increase in longevity applied to the annuity portfolio.
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

CAPITAL MANAGEMENT CONTINUED

GROUP SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and unsupported Group pension schemes of £2.8 billion (2019 pro forma: £2.4 billion). Surpluses within the with-profit funds and the Group Pension Schemes, whilst not included in the Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

In the calculation of the Solvency II surplus, the SCR of the unsupported with-profit funds and the unsupported Group Pension Schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. This approach suppresses the regulatory capital coverage ratio calculated as eligible own funds as a percentage of SCR. As a result, the Group focuses on a shareholder view of the capital coverage ratio which it considers to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the unsupported Group Pension Schemes.

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%. As at 31 December 2020, the Group Shareholder Capital Coverage ratio is 164% (2019 pro forma: 152%).

Please see the **APM section on → page 309 for further details of this measure.**

SENSITIVITY AND SCENARIO ANALYSIS

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios.

The results of that stress testing are provided on the previous page and demonstrate the resilience of the Group's Solvency II surplus.

LIFE COMPANY FREE SURPLUS (ESTIMATED)

Life Company Free Surplus represents the Solvency II surplus of the Life Companies that is in excess of their Board-approved capital management policies.

As at 31 December 2020, the Life Company Free Surplus is £2.9 billion (2019 pro forma: £2.6 billion). The table below analyses the movement during the period.

As the analysis is presented on a net of tax basis, cash remittances to the holding companies excludes £108 million of amounts received by the holding companies in respect of tax losses surrendered to the Life companies that is included in the Group's Cash Generation metric.

	Estimated position as at 31 December 2020 £bn
Opening Free Surplus (pro forma)[1]	**2.6**
Surplus generation and run-off of capital requirements	**0.8**
Management actions	**1.3**
Economics, financing and other	**(0.2)**
Free Surplus before cash remittances	**4.5**
Cash remittances to holding companies	**(1.6)**
Closing Free Surplus	**2.9**

1 Pro forma as if the acquisition of the ReAssure businesses took place on 31 December 2019.

IFRS RESULTS

OPERATING PROFIT

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 309 for further details of this measure.

The Group generated an increased operating profit of £1,199 million (2019: £810 million), reflecting the contribution of the ReAssure businesses for a full five-month period post completion of the acquisition on 22 July, and increased Bulk Purchase Annuity (BPA) transaction activity in the period.

The IFRS profit after tax attributable to owners is £834 million (2019: £116 million). The increase primarily reflects the increased operating profit described above together with a gain recognised on acquisition of the ReAssure businesses of £372 million and gains on hedging positions held in the shareholder funds.

The aforementioned benefits were partially offset by adverse investment variances, recognition of additional amortisation charges on intangible assets for ReAssure, and financing costs on new debt issuances which supported the acquisition.

BASIS OF OPERATING PROFIT

Operating profit generated by the UK Heritage, ReAssure, UK Open and Europe business segments 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 prudential 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 to the IFRS consolidated financial statements.

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. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit. Operating profit is net of policyholder finance charges and policyholder tax.

The 2019 figures for the operating profit segments have been restated to reflect strategic changes whereby the Group's annuity and BPA business is now part of the UK Open segment, where previously it was included in UK Heritage.

UK HERITAGE OPERATING PROFIT

The Group's UK Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

The with-profit operating profit of £129 million (2019: £135 million) represents the shareholders' one-ninth share of the policyholder bonuses.

The with-profit funds where internal capital support has been provided generated an operating loss of £(1) million (2019: £18 million). The loss in the current year is driven by a net negative impact of updating actuarial assumptions, notably persistency, compared to a net positive impact in the prior year, principally reflecting updates to longevity assumptions.

£1,199m

Operating profit

APM

£834m

IFRS profit after tax

Profit/(loss) after tax	**Year ended 31 December 2020 £m**	Year ended 31 December 2019 Restated[1] £m
UK Heritage	**278**	350
ReAssure	**444**	–
UK Open	**472**	417
Europe	**44**	52
Management Services companies	**6**	26
Group costs	**(45)**	(35)
Operating profit	**1,199**	810
Investment return variances and economic assumption changes on long term business	**(47)**	(177)
Variance on owners' funds	**148**	13
Amortisation of acquired in-force business, customer relationships and other intangibles	**(482)**	(395)
Other non-operating items	**281**	(169)
Profit before finance costs and tax attributable to owners	**1,099**	82
Finance costs attributable to owners	**(191)**	(127)
Profit/(loss) before the tax attributable to owners of the parent	**908**	(45)
Profit before tax attributable to non-controlling interests	**36**	31
Profit/(loss) before tax attributable to owners	**944**	(14)
Tax (charge)/credit attributable to owners	**(110)**	130
Profit after tax attributable to owners	**834**	116

IFRS RESULTS CONTINUED

The non-profit and unit-linked funds operating profit is £148 million (2019: £224 million). The reduction reflects the impact of short-term expense overruns and project costs, adverse model and methodology changes and the inclusion of one-off positive impacts from balance sheet reviews in the prior period comparative.

The long-term return on owners' funds of £2 million (2019: £(6) million) reflects the return on owners' assets, primarily cash-based assets and fixed interest securities, and the impact of expenses borne by the shareholder.

REASSURE OPERATING PROFIT

The ReAssure business segment comprises operating profit for the ReAssure businesses for the full five-month period, post-completion of the acquisition on 22 July. The result includes a £214 million benefit from positive actuarial assumption changes in the period principally longevity.

UK OPEN OPERATING PROFIT

The Group's UK Open business segment delivered an operating profit of £472 million (2019: £417 million[1]). This includes operating profits generated across the Retirement Solutions (including BPA), Workplace and CS&I business units, including new business distributed through the Strategic Partnership with Standard Life Aberdeen plc and under the Group's SunLife brand. The increase in operating profit compared to the prior year reflects the positive impact from updating longevity assumptions, increased new business profits on Bulk Purchase Annuity (BPA) transactions written in the year together with strong performance in the SunLife business.

EUROPE OPERATING PROFIT

The Europe business segment which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £44 million during the year (2019: £52 million).

MANAGEMENT SERVICES COMPANIES OPERATING PROFIT

The operating profit for management services of £6 million (2019: £26 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 a re-phasing of income from the life companies under revised management services agreements and the impacts of run-off.

GROUP COSTS

Group costs in the period were £45 million (2019: £35 million). They mainly comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes. The increase in costs compared to the prior period principally reflects the inclusion of corporate costs associated with the acquired ReAssure businesses.

INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES ON LONG-TERM BUSINESS

The net adverse investment return variances and economic assumption changes on long-term business of £47 million (2019: £177 million adverse) primarily arise as a result of movements in credit spreads, the impact of credit downgrades in the Group's investment portfolio and a net adverse impact from equity movements. Equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges are hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Losses have been experienced on hedging positions held by the Life companies in respect of rises in certain overseas equity markets in 2020, and on positions held by the ReAssure businesses as a result of improving UK equity markets in the post-acquisition period. These losses have been partly offset by gains on UK equity market hedges that the Group has had in place since 1 January 2020.

Falling yields and strategic asset allocation activities undertaken by the Group, including investment in higher yielding illiquid assets, also gave rise to positive investment return variances in the period.

VARIANCE ON OWNERS' FUNDS

The positive variance on owners' funds of £148 million (2019: £13 million positive) is principally driven by gains on the close out of foreign currency swaps held by the holding companies to hedge exposure of future life company profits and non-sterling denominated shareholder borrowings to foreign currency movements. It also includes gains on hedges in place to protect against equity risk in the ReAssure businesses in the pre-completion period. The prior year

UK Heritage operating profit	**Year ended 31 December 2020 £m**	Year ended 31 December 2019[1] Restated £m
With-profit	**129**	135
With-profit where internal capital support provided	**(1)**	18
Non-profit and unit linked	**148**	203
Long-term return on owners' funds	**2**	(6)
UK Heritage operating profit before tax	**278**	350

1 During the year, the Group reassessed its operating segments as a result of strategic developments. Specifically, the categorisation of the provision of annuities to existing policyholders with vesting products and from Bulk Purchase Annuity contracts has been revised such that this business is now included within the UK Open segment instead of within the UK Heritage segment. Comparative information has been restated to reflect this new presentation.

positive variance includes gains on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the year totalled £464 million (2019: £375 million) with the increase from the prior year driven by additional amortisation charges on intangible assets recognised on acquisition of ReAssure. Amortisation of other intangible assets totalled £18 million in the year (2019: £20 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £281 million positive (2019: £169 million negative) includes a gain recognised on acquisition of the ReAssure business of £372 million, and also an £85 million gain arising on completion of the Part VII transfer of the mature savings liabilities and associated assets from the L&G Group (see note H2.2 of the IFRS financial statements for further details). These positive non-operating items are partially offset by a net cost of £43 million associated with the delivery of the Group Target Operating Model for IT and Operations, costs of £37 million associated with the acquisition of the ReAssure businesses, £19 million incurred under the subsequent integration programme.

The balance also includes costs of £20 million associated with the on-going integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019, incurred since the Group's acquisition of ReAssure Group plc in July 2020, costs of £16 million associated with the transfer and integration of the L&G mature savings business, £34 million of other corporate project costs and net other one-off items totalling a cost of £7 million.

The prior period result of £169 million negative included an £80 million benefit arising from updated expense assumptions for insurance contracts, reflecting reduced future servicing costs as a result of transition activity. This benefit was more than offset by staff and external costs incurred or provided for in the period with regard to transition activity and the transformation of the Group's operating model and extended relationship with Tata Consultancy Services, totalling £190 million, of which £175 million related to external costs. Also included in the net other non-operating items were £5 million of costs associated with preparations to ready the business for Brexit, costs associated with other corporate related projects of £41 million, including the Group's Internal Model harmonisation project and the acquisition of the ReAssure businesses and net other items which totalled an expense of £13 million.

FINANCE COSTS

Finance costs of £191 million (2019: £127 million) have increased by £64 million, reflecting the interest charges on the new debt issuances in the year including the three debt agreements which were substituted to the Group as part of the acquisition of the ReAssure businesses.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website. The Group's tax affairs and tax controls are managed by an in-house tax team who report on them to the Board and the Audit Committee on a regular basis throughout the year. The Board believes that its Tax Strategy accords with the Group's approach to its wider Corporate Social Responsibility. The Tax Strategy was refreshed in 2020 and published in accordance with the relevant statutory requirements.

Implicit in the Group's Tax Strategy and the management of its tax affairs is a desire for greater transparency and openness that will help the Group's stakeholders better understand the published tax numbers. In this way the Group aims to participate in a substantive manner with HMRC and other insurance industry stakeholders on consultative documents and tax law changes that potentially impact on the insurance sector.

The Group's insurance operations are primarily based in the UK and are liable to tax in accordance with applicable UKlegislation. Following the acquisition of the Standard Life Assurance businesses, the Group's overseas operations have increased, in Ireland and Germany in particular. The ReAssure businesses acquired in July 2020 are also primarily based in the UK. The Group complies with the local tax obligations in the jurisdictions in which it operates.

The Group tax charge for the period attributable to owners is £110 million (2019: £130 million tax credit) based on a profit (after policyholder tax) of £944 million (2019: loss of £14 million). The tax adjustments to the Owners' profit before tax are primarily due to a deferred tax charge for the impact of the retention of the 19% corporate tax rate and impact of the L&G Mature Savings business Part VII transfer of £(37) million, non-taxable income and gains of £(78) million, amortisation on acquired in-force business at a rate other than 19% of £77 million, a prior year credit for shareholders £(17) million, deferred tax credit for recognition of previously unrecognised tax losses of £(25) million, the impact of non-tax deductible costs of £9 million and profits taxed at a rate other than the 19% statutory corporate tax rate of £(10) million.

FINANCIAL LEVERAGE

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 31 December 2020 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 28% (2019: 22%). This is within the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

Financial leverage is calculated as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus, the Tier 1 Notes and non-controlling interests.

IMPROVING STAKEHOLDER OUTCOMES

We have a responsibility to address the needs of a broad group of stakeholders. Positive engagement and meaningful outcomes are key to ensuring a strong and sustainable business.

All of our interactions are governed by the Group's Code of Business Ethics and Ethical Conduct which sets out how we can maintain a high standard of integrity across all engagements.

Key stakeholder groups

CUSTOMERS	SUPPLIERS	COLLEAGUES
The Group has c.14 million policies with £338 billion of assets under administration. Key products and services include with-profit, unit linked, annuities, protection and workplace pensions.	The Group has c.1,000 suppliers of which c.36 are considered strategic or critical to the business.	We have 7,653 colleagues based across UK, Ireland and Germany. Our operational sites include Edinburgh, Telford, Hitchin, Wythall, Norwich, Bristol, Dublin, Frankfurt, and London.
WHAT MATTERS TO THEM		
• Help our customers achieve a life of possibilities. • Deliver support at times of vulnerability. • Provide high quality, simpler, value for money service. • Be easy to interact with and be accessible. • Trust, competence and integrity. • Product innovation and service creativity.	• A collaborative approach. • Long-term relationships based on trust. • Prompt payment in accordance with agreed terms. • Clear mutual expectations and requirements on standards and processes, including modern slavery and human rights, climate and the environment, and health and safety.	• Having a sense of belonging and connection to Phoenix and its purpose, and being empowered to make a difference. • Training and development to fulfil career and development goals. • Being appropriately recognised and rewarded for performance. • Engaging in effective two-way feedback.
HOW WE ENGAGE		
Through a variety of channels that best suits our customers' needs including, phone, email, website and apps, seminars and events, as well as written communications. We conduct direct customer research, participate in research projects and hold direct interaction. We regularly collate feedback on how we can improve performance.	The Group has procurement and relationship management teams which, using our governance framework, defines the engagement with our strategic and critical suppliers to build and develop mutually beneficial partnerships.	We are embedding our Phoenix Story through real-life examples and application. Our colleagues are enabled to speak up through a continuous listening culture, including engagement surveys. We also engage through our colleague advisory forum, colleague representation groups, networks and Phoenix Together events.
ACTIONS AND OUTCOMES		
• Renewed customer loyalty and reputational strength – Customer satisfaction score above 90%[1]. • Implemented various initiatives to support customers with the impact of COVID-19. • Reduced charges for endowment customers. • Broadened digital engagement and functionality. • Conducted ESG and vulnerability customer research. • Extended drawdown capability to more of our customers.	• The Supplier Code of Conduct published on our website. • Introduced Sustainable Supply Chain standards and further due diligence monitoring on our suppliers' sustainability performance. • Harmonised Procure to Pay practice, including centralised invoicing to improve managing and tracking invoices to make it more efficient for our colleagues and suppliers.	• Launched revised Diversity and Inclusion strategy focusing on: Gender, Ethnicity, Disability, and Social Mobility. • Enhanced access to wellbeing tools and resources across the Group. • Tailored communication on new organisation purpose and story. • Clear communications on working and support arrangements in response to COVID-19, including multiple surveys to gather feedback to inform action.
READ MORE		
• Meet changing customer needs on pages 34 to 37. • Our 2020 Sustainability Report on pages 16 to 23. • **https://www.standardlife.co.uk https://www.phoenixlife.co.uk https://www.reassure.co.uk https://www.sunlife.co.uk**	• Our 2020 Sustainability Report on pages 45 to 48. • Our website **www.thephoenixgroup.com/our-suppliers**	• Inspire our people on pages 42 to 45. • Our 2020 Sustainability Report on pages 37 to 40. • Our website **www.thephoenixgroup.com/corporate-responsibility**

1 This excludes ReAssure acquired during the year.

COMMUNITY	INVESTORS	GOVERNMENT, TRADE BODIES AND REGULATORS
We are committed to making a difference in the communities in which we are based, including interacting with schools, charities, and community groups.	We maintain an active dialogue with our financial audiences who include institutional investors, private investors, rating agencies and research analysts.	The Group has various political stakeholders at Westminster and Holyrood, along with key trade bodies representing the industry, and several regulators including the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA').
• Investment into local innovation, infrastructure and sustainable communities. • Providing decent work and economic growth, including social mobility. • Financial and volunteering support to our local charities. • Educational support to our local schools. • Taking action on key societal and environmental concerns.	• Receiving regular updates on the Group's strategy, operations and performance. • Answering questions and completing questionnaires. • Clearly communicating our investment proposition to enable investors to appropriately evaluate Phoenix as an investment.	• Effective regulatory engagement and compliance. • Actively contributing to policy developments impacting long-term savings. • Collaboration with a range of trade associations relevant to sector. • Communicating the views and concerns of customers and other stakeholders.
We hold regular meetings with 'charity partners' and partnership schools, and stay connected with other good causes. We invite our colleagues to input on matters important to them in their communities. Surveys and feedback is routinely captured.	We have a comprehensive annual communications and engagement programme, which includes investor meetings, results presentations, conferences and Capital Markets Days. This year we successfully moved our interactions on-line, achieving high levels of engagement with 412 external live viewers having watched our Capital Markets Day presentation.	We have a comprehensive programme of proactive engagement across all regulators. We hold regular meetings with political stakeholders and key trade bodies. Andy Curran, CEO Savings and Retirement UK & Europe, is chair of the Association of British Insurers' ('ABI') Long-Term Savings Committee.
• Investment into our UK cities and infrastructure to promote sustainable communities – £549 million invested in social housing, £127 million in renewable energy and £212 million in other sustainability assets. • £2 million donated to registered charities. • Donation initiatives in response to COVID-19, including iPads to community hospitals, fruit baskets to front-line workers, paper reams for a local primary school, Personal Protection Equipment and perishable food items to local charities.	• The directors recommend the payment of a total dividend per share of 47.5 pence for 2020. Phoenix also paid its 2019 final dividend in May 2020 against a turbulent financial markets backdrop. • The Group delivered on all its publicly announced financial targets, including exceeding the cash generation target. • The Group maintained its Fitch Insurer Financial Strength Ratings of A+ and increased several ESG ratings. • The Board's strategy was set out at Capital Markets Day.	• Our regulated subsidiaries have approved capital and policies for distributions which protect customers. • Raised importance of customers' ability to see all pension pots in one place online. • Taken a lead role in supporting the Pensions Scams Industry Group to prevent instances of pension fraud.
• Our 2020 Sustainability Report on pages 41 to 44 • Our website **www.thephoenixgroup.com/sustainability/communities**	• Our website **www.thephoenixgroup.com/investor-relations**	• Goverment, trade bodies and regulators on page 65

SECTION 172 STATEMENT

During the year, the Directors have applied section 172 of the Companies Act 2006 in a manner consistent with the Group's purpose, values and strategic priorities.

When considering issues of strategic importance, and making key decisions about the Company, the Directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

In doing so the Directors have paid due regard to the matters set out in section 172(1)(a) to (f). Examples of key decisions (amongst others), linked to our strategic priorities, considered by the Board include:
- the payment of the PGH plc final dividend during the COVID-19 pandemic;
- the formation of the Board Sustainability Committee; and
- expansion of our Open business and Bulk Purchase Annuities activity.

For each of these decisions, the Board paid due regard to the factors set out in section 172(1)(a) to (f) where relevant, namely:
- the likely consequences of decisions in the long term;
- the interests of our employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of our operations on the community and the environment;
- the desirability of maintaining our reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

Read more on how **the Board considered each of these matters in accordance with section 172 in the Corporate Governance report, on pages 108 to 111.**

OUR CUSTOMERS

The Group recognises the responsibility it has to all its customers and operates a number of policies to ensure we are protecting our customers' interests.

IMPROVED COMMUNICATIONS AND CONNECTIONS

The Group's Customer Treatment Risk policy covers risks arising from the design or management of products, or from the failure to meet or exceed reasonable customer expectations, taking account of regulatory requirements. Customer treatment risks are aligned to the areas of focus in Phoenix Group's Customer strategy.

We our proud of our strong service delivery, always ensuring we remain relevant, engaging and easy to deal with. The Group continually improves communications with customers to make it easy for them to interact with us in connection with their policy and go on to make an informed decision should they wish to take any action. This includes enhancing customer experience and vulnerable customer support.

Vulnerability will affect the majority of our customers during their lives. For some, COVID-19 has heightened existing vulnerabilities or made them vulnerable for the first time. During the year, we completed a Group-wide research programme looking at customer vulnerability which helped us to further understand the functional and emotional needs of our customers experiencing challenging circumstances. Understanding our customers better has shown us how we can support and guide them more, whilst using the knowledge to educate our colleagues across the Group.

Phoenix has a vulnerable customer framework which enables a flexible and adaptive customer experience to respond to vulnerable circumstances. It is a living set of principles that helps us remain aware, to recognise and respond to vulnerability and be mindful that our actions don't create vulnerability.

PUTTING THINGS RIGHT FOR OUR CUSTOMERS

Complaint activity including those referred to the Financial Ombudsman Service or the Pensions Ombudsman Service is monitored and a significant proportion of complaints are resolved across the Group, in less than three days. This is a key performance indicator for the complaints team and results in a better experience for customers.

DATA PRIVACY AND CYBER SECURITY

Our Data Protection Officer monitors compliance with the GDPR and DPA 2018, providing advice on the Group's data privacy obligations and acting as the point of contact for data subjects and regulatory authorities. The Data Protection Officer owns the Group Privacy policy and Data Protection Risk policy and maintains oversight of ongoing privacy compliance. Phoenix maintains security and controls over customer data.

Security controls to protect the Group from cyber-related incidents have also been deployed and a dedicated security operations team responds to emerging cyber threats. The Group has had no significant cyber-related incidents over the year.

OUR **SUPPLIERS**

We work closely with our service providers and partners to support the delivery of our strategic objectives. We are committed to focusing on key issues associated with modern slavery and human rights, climate and environment and health and safety.

SUPPLIER MANAGEMENT FRAMEWORK

Our sourcing and procurement goes beyond the initial evaluation and selection processes and includes implementing and managing a good working relationship with all suppliers. The Group's Sourcing and Procurement Policy sets the operating standards for the management of sourcing and procurement risk throughout the Group, and forms part of the control framework.

The framework provides support throughout the sourcing lifecycle, including supplier evaluation, risk-based due diligence and contract management. Phoenix has a professional relationship manager assigned to strategic or critical providers. Their role is to govern the relationship, measure and monitor performance and continually improve outcomes.

Our new sustainable supply chain standards require our key suppliers* to meet our enhanced requirements for Modern Slavery and Human Rights, Climate and Environment and Health and Safety.

HUMAN RIGHTS AND MODERN SLAVERY

Phoenix Group takes active steps to ensure its suppliers are not engaging in any form of modern slavery or human trafficking. A statement is published on the Group website pursuant to Section 54, Part 6 of the Modern Slavery and Human Trafficking Act 2015.

Suppliers must comply with the UK Modern Slavery Act 2005 (applicable if turnover is over £36 million) or meet the local equivalent standard/Act and the International Labour Organisation (ILO) standards. At Phoenix Group there is zero tolerance for child labour throughout the supply chain and employment of young workers adheres to UK regulations regardless of location.

We expect our key suppliers to support freedom of association and the effective recognition of the right to collective bargaining and publish their performance externally.

To date there have been no issues raised with reviews conducted. The Group's Modern Slavery and Human Trafficking Statement is available at **www.thephoenixgroup.com/modernslavery**

ENVIRONMENT AND CLIMATE CHANGE

We will be working with our key suppliers to develop best practice carbon management, including net-zero targets, and robust waste minimisation including reduction of single-use plastic strategies.

HEALTH AND SAFETY

We expect robust health and safety conditions for all workers in the supply chain, and to comply with the Health and Safety at Work Act UK or local equivalent. Suppliers are expected to have health and safety staff training and management system in place and to publish their health and safety performance externally.

* Key suppliers include: strategic (those that we work closely with due to the strategic nature of the services they provide), critical (suppliers where the goods or services provided is limited in the market and barriers to change are complex) and financially important with spend ≥£1m (suppliers which are numerous but where value to Phoenix is significant).

OUR COLLEAGUES

The Group's Human Resources ('HR') policy defines people risk, which, if unmanaged, could result in a reduction in earnings or value, through financial or reputational loss.

The minimum control standards in place enable effective management around the attraction, recruitment, development and engagement of colleagues, whilst ensuring compliance with any legislation and external regulatory requirements.

Adherence to this policy is managed by the Group's HR function via quarterly assessment of the minimum control standards. There were no material issues raised during the year.

FINANCIAL CRIME AND PREVENTION

The Group's Financial Crime Prevention and Anti-Bribery policy addresses risks such as money laundering, terrorist financing, fraud, bribery and corruption risks and the facilitation of tax evasion.

Colleagues are required to complete annual computer-based training around both financial crime prevention and adherence with the Code of Business Ethics and Ethical Conduct. Colleagues are also required to complete a Gifts and Hospitality Register which is overseen and managed by the Financial Crime team.

No instances or breaches were recorded during the year.

Read more about our colleague engagement activities in the Group's Sustainability Report **www.thephoenixgroup.com/sustainability/reports**

Read more about diversity and inclusion at **www.thephoenixgroup.com/diversity**

HEALTH AND SAFETY

The Group operates a Health and Safety policy which helps manage risks and adverse effects. The Group had no accidents during 2020 which were reportable to the Health and Safety Executive under the Reporting of Incidents, Disease and Dangerous Occurrence Regulations ('RIDDOR').

All colleagues are required to complete annual computer-based health and safety training. Arrangements are in place to manage onsite facilities across all sites, ensuring the working environment is compliant and fit for purpose.

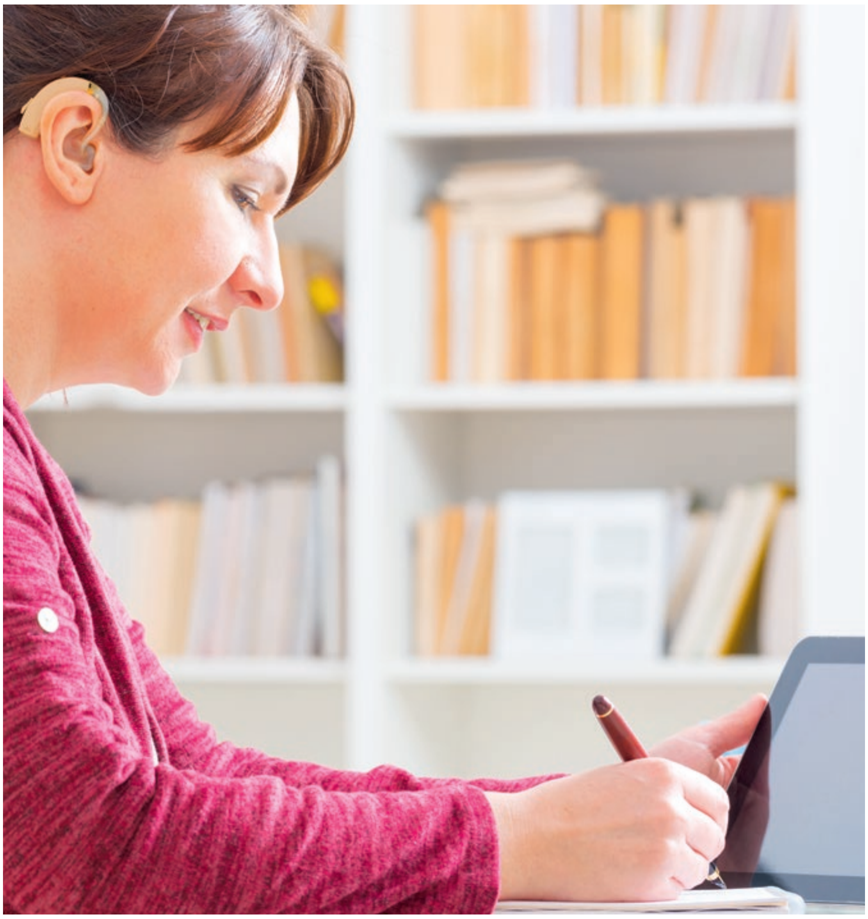
WHISTLEBLOWING

The Group operates a Whistleblowing policy, prompting colleagues to disclose information where they believe wrongdoing, malpractice or risk exists across any of Phoenix's operations. Colleagues are encouraged to speak up about matters that concern them, with the understanding that confidentiality will be maintained. The Group is committed to ensuring that human rights are respected and processes are in place to remove any human rights issues both internally and externally via outsourced relationships.

HUMAN RIGHTS

In line with the Equality Act 2010 and in order to ensure that the Group is aligned to relevant Articles of the United Nations Universal Declaration of Human Rights, the Group has a Dignity at Work policy in place. The policy covers bullying and harassment of and by managers, employers, contractors, suppliers, agency staff and other individuals engaged with the Group.

During the year the Group effectively resolved all colleague disputes and as a result has not been subject to any adverse Employment Tribunals judgements or awards.



OUR COMMUNITY

The past year has been difficult for our communities and the pandemic has disrupted the normal ways we support our various charities, schools and other community stakeholders. Phoenix has adapted its engagement approach to make sure it keeps people safe by observing social distancing and stay-at-home guidance whilst providing support where it is needed.

Our focus this year has been providing support to those considered most at risk to coronavirus; the elderly, vulnerable and individuals experiencing homelessness and food-poverty. Details of the support provided can be found in our 2020 Sustainability Report.

We are committed to using Phoenix Group's collective expertise to address pressing societal issues. Going forward, we will be aligning our community investment programmes with our purpose of helping people secure a life of possibilities, and increasing the focus on issues such as financial inclusion and mental health. Through this, we will make a tangible impact in the wider societies in which we operate.

All Group monetary donations are in line with our charity donations approach, only benefiting registered charities and nothing deemed religious or political is supported.

Read more about our community initiatives in the Group's Sustainability Report **www.thephoenixgroup.com/sustainability/reports**

DONATIONS AND CHARITABLE PARTNERSHIPS

Donations totalling £2 million were paid to registered charities during the year from the Group, which included colleague fundraising and supplier contributions. Integral to this was a £1 million COVID-19 specific donation.

£500,000 of this was donated to Age UK's Emergency Coronavirus Appeal. Other charities that benefited included our corporate charity partners, local food banks, those supporting the homeless and hospital charities.

The Group also donated to The COVID-19 Support Fund launched by the UK insurance and long-term savings industry.

The Group supported seven formal corporate charity partners during the year; Midlands Air Ambulance Charity, London's Air Ambulance Charity, Hampshire and Isle of Wight Air Ambulance, Scotland's Charity Air Ambulance, ALONE, Hilfe für krebskranke Kinder Frankfurt e.V, and Österreichische Krebshilfe Wien.

Our UK partnerships were extended across 2020 in direct response to the pandemic and its impact on fundraising. In the period 2014 to 2020, £1.4 million was donated across the UK to our air ambulance partnerships.

VOLUNTEERING

Colleagues Group-wide are entitled to take two days for individual volunteering and a further one day with their team. The opportunity to volunteer in the year was understandably affected by the pandemic, but where possible we moved opportunities online and continued to support our literacy programmes remotely. 1,747 hours were donated in support of our local communities.

OUR ENVIRONMENT

Our impact on the environment is a material concern for the Group.

As a significant long-term asset owner, we play a vital role in directing investments towards activities that are aligned to the Paris Agreement and away from those that are not. In addition, we have the ability to work with suppliers that will support the acceleration of decarbonisation.

We are committed to the need to reduce greenhouse gas emissions and accelerate the transition to a low-carbon future. We have set a target of achieving net-zero across all emission scopes by 2050. We have begun the work of identifying the best approach for this and set our first milestone to bring our operations to net-zero carbon by 2025.

We are a Business Ambition for 1.5°C signatory, and we will set and pursue an ambitious science-based emissions reduction target, with any remaining hard-to-decarbonise emissions compensated using certified greenhouse gas removal projects.

Read more about our climate-related reporting on pages 67 to 77, and our sustainability actions in the 2020 Sustainability Report. Our greenhouse gas emissions and energy consumption disclosure can be found in our 2020 ESG Report.

OUR INVESTORS

Phoenix operates a comprehensive investor relations programme and values an active dialogue with the Group's financial audiences including institutional investors, private investors, rating agencies and research analysts.

EQUITY INVESTORS

Throughout the year the Group CEO, Group CFO and the Investor Relations team held virtual meetings with investors to provide updates on the Group's strategy and operations. This involved 15 virtual shareholder roadshows and a total of 168 virtual meetings with institutions based primarily in the UK and North America but also across various other regions.

The Chairman and Non-Executive Directors are available for investor meetings on subjects such as strategy, financial performance, remuneration policy and environmental, social and governance ('ESG') aspects in order to share perspectives and ensure a mutual understanding of the Group's objectives.

The Board also receives feedback on shareholder views through a biennial anonymous shareholder consultation and is kept regularly updated through the distribution of equity research notes, broker briefings and meeting summaries.

DEBT INVESTORS

The Debt Investor Relations programme is led by the Group Treasury department and supported by the Investor Relations department. The Board is kept informed of the current views of debt investors through regular debt capital markets updates and summaries of meeting feedback.

In order to prepare the issuance of two bonds, senior management conducted two deal-specific virtual debt investor roadshows with investors based in the UK, Continental Europe, the Americas and Asia and participated in 173 debt investor meetings overall in 2020.

CONFERENCES

Conferences enable the Group to meet with a significant number of investors and are important platforms for presenting Phoenix's investment proposition. As with investor meetings, conferences from March onward were held in virtual format this year. Phoenix participated in ten conferences organised by a number of investment banks and equity research firms.

RESEARCH ANALYSTS AND SALES TEAMS

Phoenix maintains an active dialogue with its equity and debt research analysts who, in addition to results presentations, are invited to attend investor events such as the Capital Markets Day. Senior management and Investor Relations also held a total of 24 presentations to equity and debt sales teams to promote the Phoenix investment case. In addition, they participated in seven reverse roadshows organised by various equity research institutions.

CREDIT RATINGS AGENCIES AND BANKS

Phoenix's life companies and bonds in issue have credit ratings by Fitch Ratings. The Group meets with the rating agency at least once per year for the annual ratings review. The Group Treasury Team and management last provided Fitch with a comprehensive presentation in June as part of the annual review process. Prior to that, Phoenix senior management presented to Fitch in April on the Impact of COVID-19 on the company and the measures that have been put in place to manage and mitigate the risks. The Group Treasury department and senior management also keep a constant dialogue with the Group's relationship banks.

PRIVATE SHAREHOLDERS

Private shareholders are encouraged to engage with the Group through the Investor Relations team and Company Secretariat.

Contact details for the investor relations team can be found on Phoenix Group's website.

ANNUAL GENERAL MEETING ('AGM')

The Group's AGM is an opportunity to communicate with shareholders who are invited to ask questions during the meeting and then are able to meet with members of the management team and Directors. Business to be discussed at the meeting is notified to shareholders in advance through the Notice of Meeting and comprises topics such as the annual election of Directors, the appointment of the Auditor and the dividend declaration.

Due to COVID-19 restrictions the 2020 AGM was held via a webcast where shareholders could view and hear the meeting and could also raise questions prior to the meeting. For the 2021 AGM, we will be seeking to increase shareholder interaction although mindful of the impact of COVID-19 and the restrictions that are in place.

The Group will also hold Extraordinary General Meetings ('EGMs') as needed to address matters that arise in between AGMs that require a shareholder vote. An EGM in 2020 was held to obtain shareholder approval to the ReAssure transaction.

GOVERNMENT, TRADE BODIES AND REGULATORS

We communicate the views and concerns of customers to our regulators, government and wider policymakers. We have a comprehensive programme of proactive engagement across all regulators. The Group regularly engages with political stakeholders at Westminster and Holyrood, along with key trade bodies representing the industry, to communicate the views and concerns of its customers to government and wider policymakers.

REGULATORY RELATIONSHIPS

The Group maintains a strong and open relationship with the Prudential Regulation Authority ('PRA'), Financial Conduct Authority ('FCA') and other regulators. The Regulatory Relationship team, which reports to the Group Chief Risk Officer, manages interactions with the PRA, FCA and other primary regulators and liaises with them regularly.

The Board Risk Committee also receives monthly updates on the Group's regulatory interaction.

COLLABORATIONS

Andy Briggs, Group CEO, is the UK's Business Champion for Older Workers and for the Ageing Society, working across different government departments to improve the lives of our ageing population.

Andy Briggs is a member of the Association of British Insurers' ('ABI') Board, which helps inform public policy debates, promoting the value of the UK insurance and long-term savings industry products, encourages consumer understanding, and supports a competitive insurance industry.

Andy Briggs has also been invited to chair the ABI Climate Change Board, which will inform on how the sector should adapt to the impacts of climate change and migrate to a decarbonised economy.

Andy Curran, CEO Savings and Retirement UK & Europe and Group Director Scotland, is chair of the ABI Long-Term Savings Committee, which informs the ABI's work on key initiatives including the pensions dashboard, which over time will enable customers to see all of their pension pots across different providers in one place online.

During the year, we joined TheCityUK, an industry-led body representing UK-based financial and related professional services, and also the Geneva Association, a leading think tank of the insurance industry conducting research and organising debates on a number of political, economic and societal issues.

As a major employer in Scotland, the Group is a signatory to the Scottish Business Pledge, a voluntary initiative between the Scottish Government and business to help build a fairer Scotland. Key elements include paying the Living Wage and a commitment to investing in a skilled and diverse workforce.

NON-FINANCIAL INFORMATION STATEMENT

Phoenix welcomes the increased focus from all stakeholders on its non-financial performance. As required by the Companies Act 2016 sections 414CA and 414CB, the table below outlines where key content requirements of the non-financial statement can be found within this Report.

Reporting requirement	Phoenix policies which govern our approach	Section within Annual Report	Page
Environmental matters	• Code of Conduct • Sustainability policy	• Our environment – stakeholder engagement • Putting sustainability at the heart of the business	63 38
Employees	• Code of Conduct • HR Group policy	• Inspire our people • Our colleagues – stakeholder engagement	42 62
Social and community matters	• Code of Conduct • Sustainability policy	• Our community – stakeholder engagement • Our customers – stakeholder engagement • Meet changing customer needs	63 60 34
Human rights	• Code of Conduct • Sourcing and Procurement Group policy • Modern Slavery statement • Health and Safety Group policy	• Our suppliers – stakeholder engagement • Our colleagues – stakeholder engagement	61 62
Anti-bribery and corruption	• Code of Conduct • Financial Crime and Anti-Bribery Group policy • Whistleblowing Group policy • Financial Control and Reporting Group policy • Market Abuse and Disclosure policy	• Our colleagues – stakeholder engagement	62
Business model		• Our business model • Cash generation process • Our strategy and KPIs	20 to 21 24 to 25 26 to 45
Principal risks and uncertainties		• Risk Management Framework	79
Non-financial key performance indicators		• Our performance • Our strategy and KPIs	Inside front cover 26 to 45

Task Force on Climate-related Financial Disclosures ('TCFD')

TCFD REPORT

The impact of climate change is one of the biggest global challenges facing our colleagues, customers, partners, communities and the Group. Phoenix's success in fulfilling its purpose of helping people secure a life of possibilities will in part be defined by how well we address this challenge.

The Group publicly committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') in March 2020 and since then, we have made progress to develop our disclosures in line with the TCFD's four pillar framework.

This report gives an overview of our progress and future priorities across this framework.

We support the goals of the Paris Agreement to limit global warming to well below 2°C, preferably to 1.5°C compared to pre-industrial levels and to help achieve this outcome, we have committed to become net-zero carbon by 2050.

In November 2020, we joined the Science Based Targets Initiative ('SBTi') to help us develop a clearly-defined pathway to reduce greenhouse gas emissions, help prevent the worst impacts of climate change and future-proof business growth.

Over 2021, we will continue to integrate the assessment of climate-related risks and opportunities into our governance, strategy, risk management and reporting frameworks and to enhance our future disclosures in line with revised guidance from the TCFD, emerging best practice and feedback from key stakeholders.

We are committed to full disclosure in line with the TCFD recommendations by March 2022, given the expectations of the UK Government's Green Finance Strategy.

Roadmap for TCFD disclosure

Key areas of focus for 2021

- Further enhance the governance framework and Board and Executive level knowledge and skills.
- Progress quantitative scenario and stress testing analysis and participate in the 2021 Climate Risk Biennial Exploratory Scenario ('CBES') exercise.
- Complete a strategic implication assessment of identified climate risks and opportunities.
- Further embed climate risk considerations within the Group's Risk Management Framework.
- Baseline Scope 3 investment emissions and develop our metrics and targets framework.

GOVERNANCE

The Phoenix Group Holdings plc Board ('the Board') recognises the importance of addressing climate change and during the year, the Group's Corporate Governance framework has been enhanced to ensure clear oversight and ownership of the management of climate-related risk and opportunity impacts.

BOARD OVERSIGHT

The Board oversees the delivery of the Group sustainability strategy, a key priority of which is the management of climate-related risk and opportunities. Andy Briggs, the Group Chief Executive Officer ('CEO'), is the Executive Board Director responsible for implementation and delivery of the Group's sustainability strategy.

During 2020 the Board discussed climate-related matters on three occasions:

- sustainability and climate-related matters were considered at the Board's annual strategy session;
- a sustainability education session was held with Board members; and
- the Board approved the Group's net-zero carbon commitment.

The impact of climate change and wider Environmental, Social and Governance ('ESG') risks is explicitly identified as a Group principal risk. Under delegation from the Board, the Board Risk Committee considers climate change risk as part of the bi-annual review of principal and emerging risks.

Read more in our **Group's Risk Management Report → page 79**

Read more about our **Group's Corporate Governance → page 92**

The Board has an established committee structure to assist it in the discharge of its responsibilities which are managed via delegations within approved terms of reference.

The following Committees of the Board have specific oversight of climate-related risks, opportunities and disclosures:

The **Board Sustainability Committee** was established in December 2020 and is responsible for reviewing, challenging and overseeing the Group's sustainability strategy, including the setting of sustainability key performance indicators. It comprises five members of the Board (including a non-executive Director as Chair). The Group CEO, Group HR Director and Director of Corporate Affairs and Investor Relations are standing attendees and further participants are invited as required. Please refer to page 103 of this Report for further details of this Committee. The establishment of this new Board Committee reflects the importance of sustainability in the Group's strategic agenda.

In 2020, a review of the Terms of Reference for the Board Committees was conducted to ensure they included appropriate oversight of sustainability and climate-related matters. The Board Sustainability Committee engages with the following Board Committees as required:

The **Board Audit Committee** oversees the internal controls and financial reporting procedures and recommends for approval the Annual Report and Accounts, including the TCFD Report, and other ESG disclosures for compliance with relevant regulations, legislation and reporting standards.

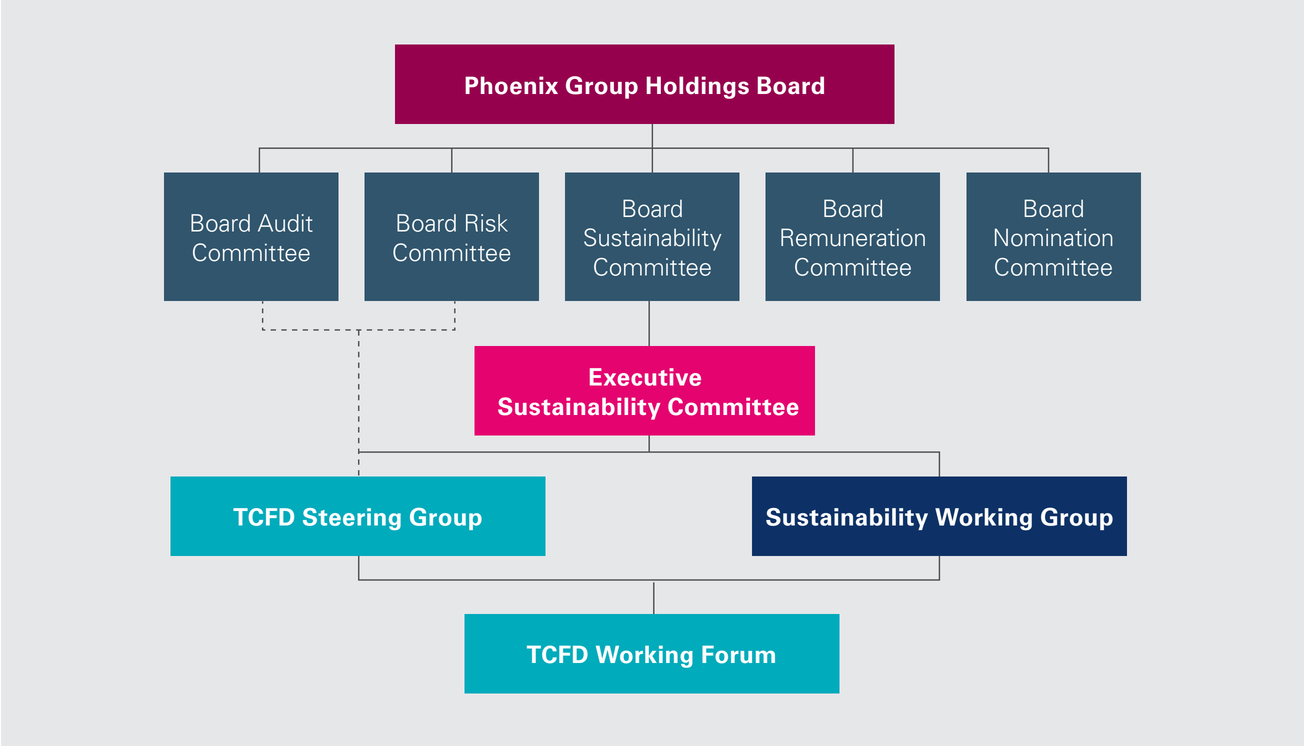
The **Board Risk Committee** oversees the identification, assessment, management and reporting of climate-related risks within the Group Risk Management Framework including climate-related stress and scenario testing; and the reporting of risk disclosures in respect of climate-related risks.

The **Board Remuneration Committee** oversees the Group's remuneration and compensation plans and policies to ensure they are aligned with our strategy and social purpose, including from 2021, the inclusion of climate-related targets within the strategic scorecard for the Executive Directors.

The Board Committees considered sustainability (including climate-related matters) during 2020 and during 2021 to the date of this report to fulfil their relevant duties in accordance with their approved terms of reference.

The Board Sustainability and Board Risk Committees also reviewed the TCFD Report before approval by the Board Audit Committee.

Climate-related governance framework



MANAGEMENT OVERSIGHT

Individual responsibility for ensuring the appropriate identification, assessment, management and reporting of climate-related financial risks and opportunities that could impact the Group sits with the Group's Chief Financial Officer ('CFO'), Rakesh Thakrar and the Group's Chief Risk Officer ('CRO'), Jonathan Pears.

Both Rakesh Thakrar and Jonathan Pears have been formally appointed as joint Senior Managers responsible for climate-related financial risk under the Senior Managers Regime.

As part of wider financial reporting responsibilities, the Group CFO is responsible for reporting metrics and targets and external disclosures; and as part of wider risk responsibilities, the Group CRO is responsible for ensuring that climate-related risks are incorporated into the existing risk management framework.

An **Executive Sustainability Committee** (established in 2020) is responsible for oversight, management, delivery and reporting of the overall sustainability strategy and programme and its underlying climate-related initiatives. Its membership comprises key executive members. Chaired by the Director of Corporate Affairs and Investor Relations, the Committee meets at least monthly and reports formally to the Board Sustainability Committee. It works closely with the Board Sustainability Committee and other Committees as required.

Management is supported by a **TCFD Steering Group** which was also established in 2020 and oversees the TCFD implementation programme, including progress against the recommendations and the publication of the annual disclosure. Its broader aim is to ensure Phoenix has an integrated approach to managing climate-related risk and opportunities and a strategic approach to managing climate change. It comprises key executive representatives from across the business including the CFO and CRO, the Chief Investment Officer, Chief Operating Officer, Director of Corporate Affairs and Investor Relations and Group Company Secretary. Chaired by the Head of TCFD Implementation, the Group meets monthly and reports to the Executive Sustainability Committee.

In addition, a **TCFD Working Forum** was also established in 2020 which comprises key functional representatives from across the business including Risk, Strategy, Investment and Governance. This forum meets weekly to ensure the day -to-day implementation and embedding of the recommendations of the TCFD.

KEY NEXT STEPS

- Implement and embed the climate-related agenda in accordance with the Group Sustainability Strategy.
- Further enhance the governance framework across the Group to address climate-related risks and opportunities.
- Continue to develop the skills and expertise of the Board, Executives and the wider Group.

STRATEGY

Phoenix is the UK's largest long-term savings and retirement business. We have a strategically important role in supporting global efforts to transition to a low-carbon economy. This requires an understanding of how climate-related impacts could affect the Group's business, corporate strategy and financial planning in the short, medium and long term.

IDENTIFICATION OF CLIMATE-RELATED RISK AND OPPORTUNITIES

During 2020, an exercise was undertaken (with support from third-party consultants) to help identify and understand the climate-related risks and opportunities which may impact the Group. Phoenix will be impacted by physical climate impacts, low carbon transition risks and potential opportunities. These impacts, as defined by TCFD, are summarised below.

Risk or Opportunity	Drivers	Potential impacts
Physical Risks related to the physical impacts of climate change	Acute	• Disruptions to business operations due to short-lived extreme weather impacts • Damage to physical assets and impacts on insurance liabilities
	Chronic	• Greater energy consumption needs due to chronic changes, such as temperature rise, impacting cooling/heating requirements • Risk to the workforce due to illness and mortality or disrupted working patterns due to changing climatic conditions
Transition Risks associated with the transition to a low carbon economy	Policy and Legal	• Increased compliance costs, stranded assets,asset impairment, restrictions and limitations on carbon intensive assets and asset depreciation
	Market and Economic	• Adverse impact on company valuation, asset impairment, viability of business model and credit rating implications
	Technology	• Write-offs of investments in disrupted technologies, required investment in new technologies and process change costs to accommodate new technologies
	Reputation	• Reputational or brand value damage resulting in lost income and additional expenditures, for example through future litigation and capital charges
Opportunities Produced through efforts to adapt to climate change	Internal and External	• Reduced operating costs through greater resource and energy efficiency • Development of new products, investment and market opportunities

To provide a more comprehensive view of risks and opportunities across Phoenix's business areas, a series of workshops with representatives across the business was held, supported by external research. This informed a qualitative assessment of risks and opportunities facing the business in the short, medium and long term; the result of which is illustrated in a heatmap opposite.

The heatmap is an initial qualitative view of risks which has been used to engage with internal and external stakeholders and allows the Group to focus on its most material risks and opportunities. It does not attempt to quantify the financial impact of any risks and opportunities to the business.

Quantitative scenario analysis will be used to provide further insight into the risks and opportunities from climate change.

Indicative materiality of climate-related risks and opportunities to Phoenix

		Physical risks		Transition risks				Opportunities	
Phoenix area *	Predominant Level 1 risk type **	Acute physical	Chronic physical	Policy and legal	Market and economic	Technology	Reputation	Resource efficiency & renewable energy	Products, services & market
Phoenix Group	Strategic	N/A****	N/A****	VH	M	L	VH	N/A	M
Operations	Operational	H	L	M	L	M	M	L	N/A
Heritage	Insurance/ Market/ Credit/ Customer	M	L	M	M	M	M	N/A	L
Open	Insurance / Market / Credit/ Customer***	M	L	M	M	M	H	N/A	VH
Investments	Market / Credit	Most material risk area. Risks determined by sectors and geographies.						N/A	VH

Significance and relevance of climate-impact

Low Medium High Very high

* Assessment has been structured by Phoenix business areas to help drive internal discussion.
** Predominant risk type as defined in Phoenix's Risk Management Framework.
*** Although physical and transition risks lead to changes in mortality and persistency changes, the predominant risks are driven by market and customer risks in these business areas.
**** Physical risks to the Group are covered under operations.

PHOENIX EXPOSURES

As illustrated above, the relative materiality of climate-related risks and opportunities varies across Phoenix's business areas, with investments considered to be the most material risk area. Further analysis of the investments area is summarised overleaf.

Physical risks are more likely to impact the Group over the medium to long term.

Acute physical risk, in particular damage to operating assets and processes is material. Climate considerations are being factored into business continuity processes but future projection data is needed to properly understand and mitigate these risks.

Chronic physical risks, such as increasing average temperatures, may increase life expectancy in the UK; however, increasing frequency and severity of acute climate events, may increase fatalities by a greater factor. These will impact the liabilities of both the Heritage and Open businesses.

The Group and its customers are exposed to a number of transition risks arising from policy and legal changes, market and economic factors and the implications for our reputation.

Customers may be exposed to transition risks depending on the nature of the assets backing their policies. Transition risks arising from regulation and market shifts will impact the value of securities in sectors exposed to transition, and hence the value of customer investments.

Phoenix will be exposed to conduct and reputational risks associated with managing these risks. If Phoenix fails to improve its climate-related activity in investments and/or operations, customers may choose to look elsewhere and Phoenix will lose business and face reputational damage. Growth in the Open Division is likely to be adversely impacted if climate-related considerations are not embedded in new propositions.

Risks relating to policy changes, legal implications and reputational damage are most material at Group level. They evolve around potential future litigation and capital charges against the Group for failure to meet regulatory deadlines, green taxes on the financial services sector and not meeting our net-zero carbon targets.

These risks are more likely to impact the Group over the short to medium term.

Opportunities available to Phoenix may include improving energy efficiency and reducing energy consumption in offices, data centres and home working environments.

As awareness of climate change increases among customers, there may be opportunities for Phoenix to offer 'green' products and services to meet increasing demand. Additional opportunities will be available if Phoenix moves faster than peers and gains competitive advantage.

Further work will be conducted to embed the heatmap output within the Group's Risk Management Framework ('RMF') and risks arising from climate change will be reviewed in line with regular risk management processes.

Indicative materiality of potential exposures to physical and transition risk by investment asset category

	Physical Risks		Transition Risks	
Asset Category	**Shareholder**	**Policyholder**	**Shareholder**	**Policyholder**
Debt	VH	L	H	L
Equity securities	VL	H	VL	H
Property investments	VL	L	VL	L
Equity release mortgages	L	N/A	VL	N/A
Commercial real estate loans	VL	N/A	VL	N/A

Significance and relevance of climate-impact

Very Low · Low · Medium · High · Very high

The heatmap scores above are not comparable to the Phoenix business-wide heatmap scores as each risk rating is based on the combined sector, geography and exposure scores for each asset category. Phoenix and publicly available data were used to develop this heatmap. Undertaking asset level quantification will help to verify and improve these initial heatmap results.

INVESTMENT ASSET EXPOSURES

Further analysis was carried out to assess the climate risks within investments, the most material risk area.

The potential climate risk exposure of an investment asset depends on a number of factors:

- the characteristics of the asset class itself, for example a physical asset, such as real estate, will be more exposed to physical climate risks;
- the sector the asset operates in, for example high-carbon sectors such as oil and gas will be more impacted by the transition to a low-carbon economy; and
- geography, for example certain countries are more vulnerable to or less prepared for climate events. Transition pathways and associated policies will differ by country and alter their transition risks.

Phoenix's climate risk exposure is ultimately driven by the level of direct financial holding. The overall exposure to climate-related risk can be reduced by holding investments in asset classes, sectors or geographies with lower climate risk.

As illustrated above, at an investment class level, Phoenix's debt portfolio in the shareholder funds faces the greatest climate-related risks.

From a policyholder perspective, the greater exposure is in the equity holdings under both physical and transition. There is a greater level of uncertainty within the policyholder equity holdings due to the wide range of stocks, including managed funds and we have therefore assumed a high financial exposure.

Policyholder investments in passive funds (e.g. FTSE trackers) may have high climate risk exposure and our ability to restrict investment in passive funds is limited.

Real estate is the highest physical risk sector but this is diluted in the overall score due to these investments making up a small proportion of the portfolio. Exposure arises to policyholders through investment in property funds and to shareholders from equity release mortgages.

CLIMATE SCENARIO ANALYSIS

Climate scenario analysis is a key tool which allows the Group to better understand the impact of the identified physical and transition risks on the Group in future possible scenarios.

In 2019, the Group (and ReAssure Group plc that it has since acquired) participated in the Prudential Regulation Authority's ('PRA') Insurance Stress Test ('IST') which required quantitative analysis against three prescribed climate change scenarios for the transition towards a low carbon economy: a long-term orderly transition; a sudden disorderly medium term transition; and a 'hot house world' or failed/no transition.

The key findings from the Group's IST exercise were as follows:

- the proportion of assets mapped to higher climate risk sectors was relatively low (15% to 20%);
- the greater exposures were in the policyholder funds, given their greater exposure to riskier assets.;
- the overall reduction in market value is relatively low compared to the overall size of the stresses; and
- a disorderly transition would be expected to be more onerous than an orderly one.

During 2020, the Group further developed its internal climate scenario analysis and stress testing capabilities and methodologies, with support from third-party consultants to supplement our in-house resource.

The key areas of focus included:

Scenarios selection: We have chosen a range of scenarios that align to our strategy and risk profile. These include coverage of physical and transition risks as well as mapping to externally recognised scenarios. We also conducted an exercise to map these scenario narratives to recognised and appropriate external scenarios aligned with recommended frameworks. This is summarised below.

Data: We are developing our strategy regarding climate data, including asset data, counterparty data and external climate data (for both physical and transition risks).

Calibration: We are developing our methodology and approach to translate these data into the factors required to assess the impacts on our business.

Modelling: We are developing methodologies for modelling different exposures then building the required models to assess the impacts under the different scenarios.

Capability building: We are taking steps to enhance our capabilities to allow us to participate in the upcoming Bank of England's Climate Biennial Exploratory Scenario ('CBES') regulatory stress test exercise starting in the second half of 2021 and to develop the necessary framework to allow us to run climate scenario analysis and stress testing for future risk management and strategic decision-making.

Phoenix's climate scenario analysis framework

Risk		Physical Risk	Transition Risk
Risk drivers		Acute; Chronic	Policy and Legal; Market and Economic; Technology; Reputation
Reference frameworks		The Intergovernmental Panel on Climate Change Representative Concentration Pathways ('IPCC RCP')	Network for Greening the Financial System ('NGFS')
Scenarios	1.5°C	N/A	Orderly – 1.5˚C with Carbon Dioxide Removal
	2°C	RCP2.6 (Assumes global temperature rise below 2 °C by 2100)	Disorderly – 2˚C with limited Carbon Dioxide Removal
	4°C	RCP8.5 (Assumes emissions continue to rise – worse case scenario)	'Hot house world' – Current Policies
Time horizon for analysis		To be determined – within 2030 to 2050	To be determined – within 2030 to 2040

RESPONSIBLE INVESTMENT PHILOSOPHY

The Group has developed a Responsible Investment Philosophy (available on the Group website) as the first step towards embedding climate change risk and ESG considerations within the Investment Management process. The philosophy serves as a framework that sets out a high level commitment and focus to both internal and external stakeholders.

We aim to ensure that the Group's investment strategy and processes remain consistent with the latest best practice and scientific research. Our strategy for decarbonisation of the investment portfolios focuses on:

- reducing the Greenhouse Gas intensity of our investment portfolios;
- increasing investment in 'climate solutions', such as renewable energy, low carbon buildings, and energy efficient technologies; and
- Paris-Aligned Stewardship where we influence the investee companies to transition to a low carbon economy.

The Group is engaging with its Asset Management Partners to identify appropriate inclusion of climate change considerations within both the investment strategy and risk management processes. This activity will be progressed on a phased basis, identifying pilot portfolios for early adoption and to initially focus on equities and fixed income asset classes.

In December 2020, Phoenix became a signatory to the Principles for Responsible Investment ('PRI'), an international association of asset owners, investment managers and service providers working towards a more sustainable global financial system through the incorporation of ESG factors into investment decision making and ownership. As a PRI member, Phoenix joins a network of over 3,000 organisations committing to the PRI's six key principles and regularly reporting through the TCFD disclosure.

KEY NEXT STEPS

- Undertake pilot quantitative scenario exercise to develop methodology.
- Develop internal climate scenario modelling capabilities for most material asset classes.
- Use results of scenario analysis to identify additional risk management actions and assist in strategic decision-making.
- Support and participate in the CBES exercise.
- Complete a strategic implication assessment of climate risks and opportunities.

RISK MANAGEMENT

The Group has continued to embed the identification, assessment, management, monitoring and reporting of climate-related risks within the Risk Management Framework.

From a 'top-down' perspective, the Group first reported climate risk as an emerging risk in 2018. As our understanding of the impact of climate- related risks on the Group and our customers has evolved, we have increased the focus on climate risk in the Group's Risk Management Framework ('RMF'). We have classified climate risk as a principal risk to the Group since 2019 reflecting the potentially material impact of climate risks on our strategy, operations and customers.

The Group's RMF sets out how the Group identifies, manages, monitors and reports on the risks to which it is, or could be exposed (including climate-related risks). Please see page 79 to read more in the Group's Risk Management Report.

In 2020, we have continued to embed the assessment of climate-related risks into our RMF.

Risk universe: Phoenix treats climate change risk as a cross-cutting risk that impacts all aspects of the risk universe.

Risk identification: We have undertaken a qualitative assessment of the aspects of Phoenix's business which are most exposed to these potential climate-related risks and opportunities. These are summarised above in the Strategy section. Quantitative analysis, building on the PRA's IST, will be developed over 2021.

Risk policies: The Group has developed a Sustainability Risk Policy and work is in progress to fully embed material climate-related risks into the Group Risk Policies by the end of 2021.

Risk reporting: As a principal risk, climate risk is monitored and reported internally and externally. As our metrics and targets framework develops over 2021 and climate-related risks are fully reflected in Group Risk Policies, our risk reporting will be developed further to reflect these enhancements.

Risk appetite: The Sustainability Risk Appetite Statement is one of the Group's six high-level appetite statements: "The Group will deliver on its sustainability commitments to foster responsible investment, reduce our environmental impact, follow our corporate purpose and be a good corporate citizen."

More granular policy level appetites are being developed alongside the development of the metrics and targets framework and the embedding of climate risks into the Group's Risk Policies.

Scenario analysis: The scenario section above describes the work that has been done to quantify potential climate exposures and how we are developing our own internal quantification of the impacts of potential climate change scenarios.

The physical, transitional, legal and reputational risks of climate change are viewed by the Group as cross-cutting the risk universe; with strategic, financial, operational and customer implications should we fail to successfully embed the management of climate-related risk.

MANAGEMENT OF CLIMATE-RELATED RISKS

We have made progress to understand the most material risk areas that may impact the Group as highlighted in the heatmaps illustrated earlier. The table below summarises these material risk areas and outlines the action we are taking or planning to take to mitigate these risks.

Risk type	Material risk areas	Mitigation of material risk areas
Physical	Operations	• Continue to ensure that robust business continuity and operational resilience frameworks consider all office locations, staff, systems and processes • Together with our suppliers, work to develop a leading sustainable supply chain programme, aligning with those organisations that share our sustainability aspirations and commitment • Conduct regular reviews of energy efficiency of offices, business travel guidelines, etc. • Develop and implement required actions to meet interim net-zero carbon commitment by 2025
	Property assets	• Develop and include climate considerations within investment mandates to limit/avoid exposures to high risk geographies and locations • Consider whether to undertake more frequent valuations of higher risk property assets • Undertake a review of key underwriting terms of property based products such as Equity Release Mortgages
Transition	Policy/legal	• Ensure appropriate consideration of climate change within existing regulatory horizon scanning framework • Complete embedding consideration of climate risks into the Group's Risk Management Framework • Identify, assess and manage risks associated with the transition to a low carbon economy
	Reputational	• Evidence increasing consideration of climate change risk management as a key part of strategy • Continue to develop climate disclosures to ensure good quality reporting compared to peers and best practice • Appropriate consideration of climate-related expectations of a broad range of stakeholders
	Investments*	• Develop more granular consideration of investment climate risks by asset class/ sector/geography • Assess ESG capabilities of new asset managers and regularly review existing managers • Enhance climate analysis of material investment counterparties • Continue to increase engagement and stewardship with counterparties through asset managers • Develop exclusion policy and use divestment when engagement fails to yield required results • Develop interim targets and implement required actions to meet net-zero carbon commitment by 2050
	Open business	• Actively engage with customers to understand requirements and expectations to offer credible ESG funds and solutions • Consider potential opportunities for developing new 'green' products and services • Monitor persistency reporting to identify and understand any increase in climate risk drivers

* This applies to the whole portfolio (heritage and open business).

KEY NEXT STEPS

- Develop internal climate risk appetites linked to metrics and targets framework
- Embed climate risk considerations within the Group's Risk Management Framework
- Develop internal climate risk reporting

METRICS AND TARGETS

Phoenix is committed to developing a robust metrics framework to help us measure and manage the impact of climate-related risks and opportunities. In 2021, we will be focusing our efforts on developing these metrics and targets using TCFD guidance, emerging best practice and ongoing engagement with our key stakeholders.

The Group has continued to focus on the key areas of Greenhouse Gas ('GHG') reduction, carbon management and staff engagement. Key achievements during the year have included:

- the development of an operational GHG reduction action plan;
- the creation of a Group-wide environmental policy to bring together cohesive action across all Group sites;
- procurement of 100% renewable energy sources across all UK sites;
- the development of a responsible consumables action plan, which will remove single-use plastics from our vending points by the end of 2021 and ensure the effective disposal of our waste; and
- the implementation of colleague environmental scorecards to provide statistics to encourage responsible behaviour related to energy, print, travel and consumables.

GHG EMISSIONS

Within Table 1 of the Streamlined and Energy Consumption Report ('SECR') overleaf, we have included GHG emissions disclosures for Scopes 1 and 2 (operations) and selected Scope 3 (tenanted properties, business travel and home-working emissions).

Phoenix's Operations Intensity Metrics are included within Table 2 and we have also provided an update on the energy efficiency actions we have taken in 2020.

The 2020 carbon intensity for our operations is 1.2 tonnes CO_2e/FTE and we have set a target to reduce this by 20% during 2021. We have reduced 0.5 tonnes CO_2e/FTE in 2020 from our 2019 baseline of 1.7 CO_2e/FTE.

NET-ZERO CARBON

In December 2020, the Group committed to becoming net-zero carbon across all emission scopes by 2050. A high level roadmap to net-zero is included within the Group's Sustainability Report.

We have initiated work to identify the best approach to deliver this commitment by setting our first milestone to bring our operations (Scopes 1, 2 and selected scope 3 business travel) to net-zero carbon by 2025.

In 2021, we will baseline the Scope 3 carbon emissions of the investment portfolio. We will then identify appropriate interim decarbonisation targets consistent with the 2050 net-zero position.

The Science Based Target Initiative ('SBTi') framework will be used to validate the delivery of our ambition to pursue a 1.5°C aligned emissions reduction target. This will involve setting specific science based targets for our net-zero carbon targets and milestones.

KEY NEXT STEPS

- Identify and source appropriate climate data to measure the carbon intensity of the investment portfolio.
- Baseline Scope 3 investment emissions.
- Develop our metrics and targets framework to include specific investment metrics including,for example, Weighted Average Carbon Intensity.
- Develop, validate and set our SBTi net-zero targets for all scopes and align future reporting metrics.

Metric	Target	Date
GHG emissions	Reduce Scope 1 and 2 emissions from occupied premises per full time employee intensity by 20% on 2020 value	2021
	Net-zero carbon emissions from operations (Scope 1, 2 and selected scope 3)	2025
	Net-zero carbon emissions from investment portfolio (Selected scope 3)	2050

SECR STATEMENT: GREENHOUSE GAS ('GHG') EMISSIONS AND ENERGY CONSUMPTION DISCLOSURE

This is Phoenix Group's first SECR statement on the Group's UK and global energy consumption and GHG emissions for the financial year 1 January 2020 to 31 December 2020, and including the 2019 comparative year. Emissions disclosed here relate to activities, facilities and property investment portfolios where Phoenix Group has operational control.

METHODOLOGY

Phoenix Group has used the main requirements of the GHG Protocol Corporate Standard (revised edition), together with International Energy Agency ('IEA') and DEFRA UK Government Conversion Factors 2020, as the basis to report on any GHG emissions in tonnes of carbon dioxide equivalent ('tCO_2e'). This expresses multiple greenhouse gases in terms of carbon dioxide based on their global warming potential (including methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride).

Emissions considered relate to activities both in the UK and globally for which Phoenix Group is responsible, and include as applicable: combustion of any fuel and operation of its facilities; fugitive emissions released from refrigerants purchased (based on refrigerant top-ups); and annual emissions from the purchase of electricity, heat, steam or cooling by Phoenix Group for its own use. In this statement Phoenix has also chosen to include estimated employee home-working emissions (Scope 3), using the EcoAct Homeworking Emissions Whitepaper 2020, in order to recognise the indirect emissions resulting from the move to home-working in 2020 due to COVID-19.

Following the purchase of ReAssure Group plc in 2020, included here are the property investment portfolios as well as the occupied premises in the UK, Ireland, Germany and Austria. Furthermore, in the property investment portfolios, where energy consumption is sub-metered to tenants, this falls into the Scope 3 reporting, whereas all other landlord-obtained consumption remains as Scope 1 or 2 emissions. The 2019 comparative figures do not include ReAssure Group plc emissions.

Phoenix Group reports Scope 2 emissions using the GHG Protocol dual-reporting methodology, stating two figures, location and market-based, to reflect the GHG emissions from purchased electricity:

- a location-based method that reflects the average emissions intensity of the national electricity grids from which consumption is drawn; and
- a market-based method that reflects emissions from electricity specific to each supply/contract. Where electricity supplies are known to be from a certified renewable source, a zero emissions factor is used, otherwise residual mix factors are used.

GREENHOUSE GAS EMISSIONS[1]

Table 1: Absolute energy and GHG emissions in tonnes of CO_2e

Consumption, GWh[2] from:	2020		2019[3]	
Building Electricity	41.9		44.7	
Building Natural Gas	24.1		21.0	
Business Travel	0.4		0.9	
Homeworking Electricity	1.3		N/A	
Homeworking Natural Gas	20.2		N/A	
Emissions, tonnes of CO_2e, from:	**(market-based)**	**(location-based)**	**(market-based)**	**(location-based)**
Scope 1 – Combustion of fuels, business travel in company cars, and fugitive emissions of refrigerant gases	4,913	4,913	4,203	4,203
Scope 2 – Electricity purchased for landlord shared services and own use (purchase of heat, steam and cooling not applicable)	3,266	10,065	3,702	13,052
Scopes 1 and 2 – Mandatory carbon footprint disclosure	8,178	14,978	7,905	17,255
Scope 3 – Energy sub-metered to tenants, business travel in employees' cars, transmissions and distribution losses from electricity	1,040	3,129	760	4,267
Scope 3 – Employee home-working emissions	4,272	4,129	N/A	N/A
Scopes 1, 2 and 3 – Voluntary three scopes carbon footprint	13,490	22,236	8,665	21,523

1 Emissions factors – IEA (for location-based Scope 2 and Scope 3 T&D losses), AIB (for market-based residual mix factors for non-renewable electricity), and DEFRA (fuels, refrigerants and car travel). There is a significant time-lag in the availability of IEA factors – the 2020 factors will not be published until late 2022. Therefore all 2020 consumption data are converted using the factors actually arising in 2016 (except car travel which uses DEFRA factors as published in 2020). Whilst imperfect, we can consistently and readily report emissions internally from the first day of a year (for monthly/quarterly reporting). Emissions are thus somewhat overstated rather than understated – though this encourages energy reduction and sourcing of renewable energy.
2 Energy Units: 1 GWh = 1,000,000 kWh.
3 The ReAssure Group plc portfolio is not included in the 2019 data, as the acquisition was completed on the 22 July 2020.

SECR Statement: Greenhouse Gas ('GHG') emissions and Energy Consumption Disclosure continued

CHANGES TO PHOENIX GROUP'S OPERATIONS

In 2020 there was 66.4 GWh of Phoenix Group global energy consumption (building energy and business travel in either employees' cars or company cars) as shown in Table 1, 93% of which was from UK operations. This is a decrease on the 66.6 GWh of global energy use reported in 2019, despite the addition of ReAssure Group plc.

Separately, in 2020 we have estimated (for information purposes only) that 21.5 GWh can be attributed to employee home-working energy consumption, of which 90% occurred within the UK. In GHG emissions terms (Scopes 1, 2 and 3), 91% of Phoenix Group emissions occurred at UK sites.

In 2020, despite the acquisition of the ReAssure Group plc portfolio, absolute emissions (location-based Scope 1 and 2) have decreased by 13%. This reduction is largely attributed to the COVID-19 world health crisis, which has resulted in significant disruption to the conventional way of working, and meant that almost all employees have had to work from home for the duration of the year. This change to home working has also caused a 20% reduction in the like-for-like building emissions of Phoenix Group as per the intensity metric of tonnes per floor area in Table 2.

Approximately 85% of electricity consumption is from certified renewable sources, accounting for why the market-based emissions for Scope 2 are significantly less than the location-based emissions, as shown in Table 1. This is a reduction in percentage of renewable sources compared to 2019 due to the addition of ReAssure Group plc. This has increased the proportion of market-based emissions compared to location-based emissions in 2020 versus 2019.

Table 2: Phoenix's chosen intensity measurement[2]

Emissions, tonnes of CO_2e per chosen intensity metric:	2020 (location-based)	2019 (location-based)
Scope 1 and 2 Emissions from occupied premises per floor area intensity[2]	80 kg CO_2e/m^2	101 kg CO_2e/m^2
Scope 1 and 2 Emissions from occupied premises per full-time equivalent employee ('FTE') intensity[3]	1.2 tonnes CO_2e/FTE	1.7 tonnes CO_2e/FTE

2 The 2019 and 2020 CO_2e/m^2 intensity metric calculations include Phoenix Group's Wythall Estate, Standard Life House, St Stephen Green, SL Data Centre, Glenogle Road and leased floor area of Juxon House, accounting for 67% of Phoenix Group's total occupied floor area. The 2019 intensity metric has been restated here based on increased data coverage in 2020 which provides a more accurate representation and allows for better overall comparison across 2019–2020.

3 The CO_2e/FTE intensity metric calculation for 2019 and 2020 exclude the FTE and Scope 1 and 2 emissions for the ReAssure Group plc portfolio as this was not acquired until mid 2020, and is therefore not comparable.

ENERGY INTENSITY METRICS

As shown above in Table 2, Phoenix Group's Operations Intensity Metrics detail carbon emissions per floor area ('m²') and per full-time equivalent employee ('FTE') in occupied premises. The intensity for both m^2 and FTE has decreased from 2019 to 2020, largely driven by the move to home-working for most of the Group's employees as a result of COVID-19.

ENERGY EFFICIENCY ACTIONS

In 2020 Phoenix carried out a number of energy efficiency actions on its premises. To applicable and appropriate properties the following have been carried out:

- LED lighting roll out (68% lighting energy reduction at Standard Life House obtained);
- building control systems have been upgraded to allow for greater flexibility and operational efficiency;
- electrical vehicle charging points have been installed;
- within ventilation systems, fans have been upgraded and inverter controls have been retrofitted (15% overall improvement expectation);
- roof insulation materials have been upgraded;
- electric 'point of use' water heaters have replaced gas storage systems;
- half-hourly data gas meters have been installed;
- sub-metering installation has been carried out to allow for greater data granularity and management;
- boilers have been upgraded or replaced as necessary (20% overall improvement expectation); and
- heat pumps are being considered (to replace gas boilers) in applicable properties.

Where practical, the consolidation of offices will take place to help to reduce Phoenix Group's operational footprint and increase efficiency of area usage. Due to these actions being carried out in 2020, any subsequent energy reduction will be accounted for and commented on in the Group's SECR statement.

THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework ('RMF') embeds proactive and effective risk management across the Group. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities.

The nine components of the RMF are outlined in the diagram, with further information given in the sections that follow. Following the acquisition of ReAssure Group plc, the Group is working to complete the integration of the Phoenix RMF into ReAssure in the second half of 2021.

Risk Management Framework

RISK ENVIRONMENT

The overall risk environment is heightened since March 2020; this predominantly reflects prolonged uncertainty relating to COVID-19 and the resulting impacts on the economy, our customers and our colleagues, in addition to the scale of internal demands from the extent of change in the organisation.

The rollout of COVID-19 vaccines is positive; however, there is significant uncertainty over the timing of any economic recovery and the consequences of the pandemic remain unclear, both from a financial and societal perspective. Due to the heightened risk environment there is a continued need to consider a wide range of adverse scenarios to inform key business decisions; this is facilitated through our established Stress and Scenario Testing Programme, a key component of our RMF and Own Risk and Solvency Assessment ('ORSA').

The Group utilised its RMF to respond effectively to the rapidly changing pandemic; we continue to adapt a range of COVID-19 stresses to assess the resilience of the Group to a range of potential adverse outcomes from the pandemic. A number of mitigating actions have been taken since March 2020, to provide ongoing support to customers, protect customer outcomes and ensure the Group remains financially resilient.

The well-being of colleagues remains critical, particularly as lockdown measures continue, compounded by periods of home schooling and caring responsibilities. The Group has managed this carefully since the start of the pandemic through cross-organisational collaboration and health and well-being support.

In addition, to ensure no material impact on our priorities, operational capacity across the Group and within our outsourcing partners continues to be actively monitored by management and Boards. This ensures the Group is effectively prioritising activity so it can continue to meet business demands and prevent any adverse impact to customer outcomes and business performance.

Following the addition of a principal risk on climate change and wider ESG risk in 2019 we have continued to embed climate-related risks and opportunities into our RMF. Further details on future priorities across each of the TCFD focus areas are outlined on page 67.

As a result of pre-emptive action, the Group was well placed to deal with the operational consequences arising from the end of the Brexit transition period. The Group continues to monitor the implications for our operations in light of the new trading relationship agreed between the UK and EU and will take mitigating action if required.

In July 2020, the Group successfully completed its acquisition of ReAssure Group plc bringing additional scale to Phoenix's Heritage business and enhancing our key attributes of cash generation, resilience and growth. The impact of the ReAssure Group plc acquisition on the enlarged Group's risk profile is considered within the Group's principal risks and uncertainties on pages 83 to 89.

OWN RISK AND SOLVENCY ASSESSMENT ('ORSA')

The Group's ORSA cycle brings together inter-linked risk management, capital and strategic processes. The ORSA provides:

- processes to identify, assess, control and monitor risks the Group faces;
- an understanding of current and potential risks to the business; including financial and non-financial risks under base and stressed scenarios;
- our appetite to accept these risks and how the Group manages them; and
- a forward-looking internal assessment of the Group's solvency position in respect of its risk profile and how it is likely to change given business plans and strategy.

The ORSA plays an important role in supporting strategic decision-making and strategy development at our Boards and risk committees.

ORSA process cycle

RISK STRATEGY AND CULTURE

Risk strategy

Our risk strategy is our overall approach to taking rewarded risks that are understood, managed effectively and are consistent with our social purpose and enterprise strategy. Our risk strategy supports a more stable, well-managed business with improved customer, shareholder, colleague and societal outcomes.

We achieve our social purpose and enterprise strategy not by avoiding risks, but through the identification and management of an acceptable level of risk (our 'risk appetite') which ensures the Group is appropriately rewarded for the risks that are taken.

Risk culture

Risk culture is the sum of our shared values, behaviours and attitudes towards risks faced by our customers, shareholders, colleagues and society. Our risk culture reflects the way we think and act, both individually and collectively. Our risk culture vision is to promote:

"An environment that supports informed decision-making and controlled risk-taking".

The creation of this environment is enabled through the Group's values of passion, responsibility, growth, courage and difference. Underpinning each of these are the individual and collective attitudes and behaviours that support the realisation of this environment.

We regularly assess ourselves against our risk culture vision, doing this through a comprehensive dashboard with a suite of measures on people, governance, customers and leadership.

RISK APPETITE

Risk appetite is used to define the amount of risk that the Group is willing to accept in the pursuit of enhancing customer and shareholder value, and the attainment of our strategic objectives. The Group's risk appetite statements establish the risk boundaries within which we are prepared to operate, set the tolerance for delivery against our objectives, and are a key tool in balancing the interests of different stakeholders.

The following risk appetite statements are adopted by the Group:

Capital – The Group and each Life Company will hold sufficient capital to meet business requirements including those of key stakeholders in a number of Board-approved asset and liability stress scenarios.

Liquidity – The Group and each Life Company will seek to ensure that it has sufficient liquidity to meet its financial obligations under a range of Board-approved scenarios.

Shareholder value – The Group only has appetite for risks that are rewarded, adequately understood and controlled and consistent with the Group's strategy. The Group will take action to grow and protect shareholder value.

Control – The Group and each Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies, applicable laws and regulations, in a commercially effective manner.

Conduct – The Group maintains the highest conduct standards in line with regulatory, customer and market expectations. Any deliberate or negligent actions leading to unfair customer outcomes, poor market conduct, reputational damage or regulatory censures are not acceptable. If an unfair outcome should arise, the Group will put it right in a fair and prompt manner.

Sustainability – The Group will deliver on its sustainability commitments to foster responsible investment, reduce our environmental impact, follow our corporate purpose and be a good corporate citizen.

RISK UNIVERSE

A key element of effective risk management is ensuring the business understands the risks it faces. These risks are defined in the Risk Universe. The Risk Universe allows the Group to deploy a common language, allowing for meaningful comparison to be made across the business. There are three levels of Risk Universe categories. The highest Risk Universe category is Level 1 and includes:

- Strategic risk
- Customer risk
- Financial Soundness risk
- Market risk
- Credit risk
- Insurance risk
- Operational risk

The Group treats climate change risk and conduct risk as cross-cutting risks that impact all aspects of the Risk Universe.

RISK POLICIES

The Group Risk Policy Framework supports the delivery of the Group's social purpose and enterprise strategy by establishing the operating principles and expectations for managing the key risks to the Group's business. Each of the risk policies define:

- the individual risks the policy is intended to manage;
- the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
- the minimum control standards required in order to manage the risk to an acceptable level; and
- the frequency of the control's operation.

The risk policies are mapped to each of the Level 2 Risk Universe categories to ensure complete coverage of all material risks.

The Group Risk Policy Framework further supports the Group in operating within the boundaries of its Risk Appetite statements by seeking to limit volatility under a range of adverse scenarios agreed with the Board. Quantitative and qualitative appetite limits are chosen which specify the acceptable likelihood for breaching the agreed appetite statements (e.g. less than x% chance of a breach in regulatory capital) and assessment against the appetite targets is undertaken through scenario testing. Breaches of appetite are corrected through management actions where appropriate. The effective use of risk mitigation techniques such as reinsurance, hedging and outsourcing are key to ensuring the Group remains within risk appetite and are described in the relevant Group Risk Policies.

Key performance indicators for risk categories are considered in each corresponding Group Risk Policy.

A Group Conduct Risk Framework overarches all risk policies to provide a holistic view of conduct risk. This provides a consistent and comprehensive approach to the management of conduct risks and achievement of customer outcomes across the Group.

GOVERNANCE AND ORGANISATION

Governance

The RMF sets out a consistent three lines of defence model with clearly defined roles and responsibilities for all components. Risk accountability and ownership are embedded in the first line, with first line assurance teams established to support the business by providing substantiated evidence that controls are fit for purpose.

Overall responsibility for approving the RMF rests with the Board, with maintenance and review of the effective operation of the RMF delegated to the Group Board Risk Committee. This delegation also includes approval of the overall risk management strategy and the review and recommendation to the Board of the relevant risk policies, risk appetite statements, risk profile and any relevant emerging risks.

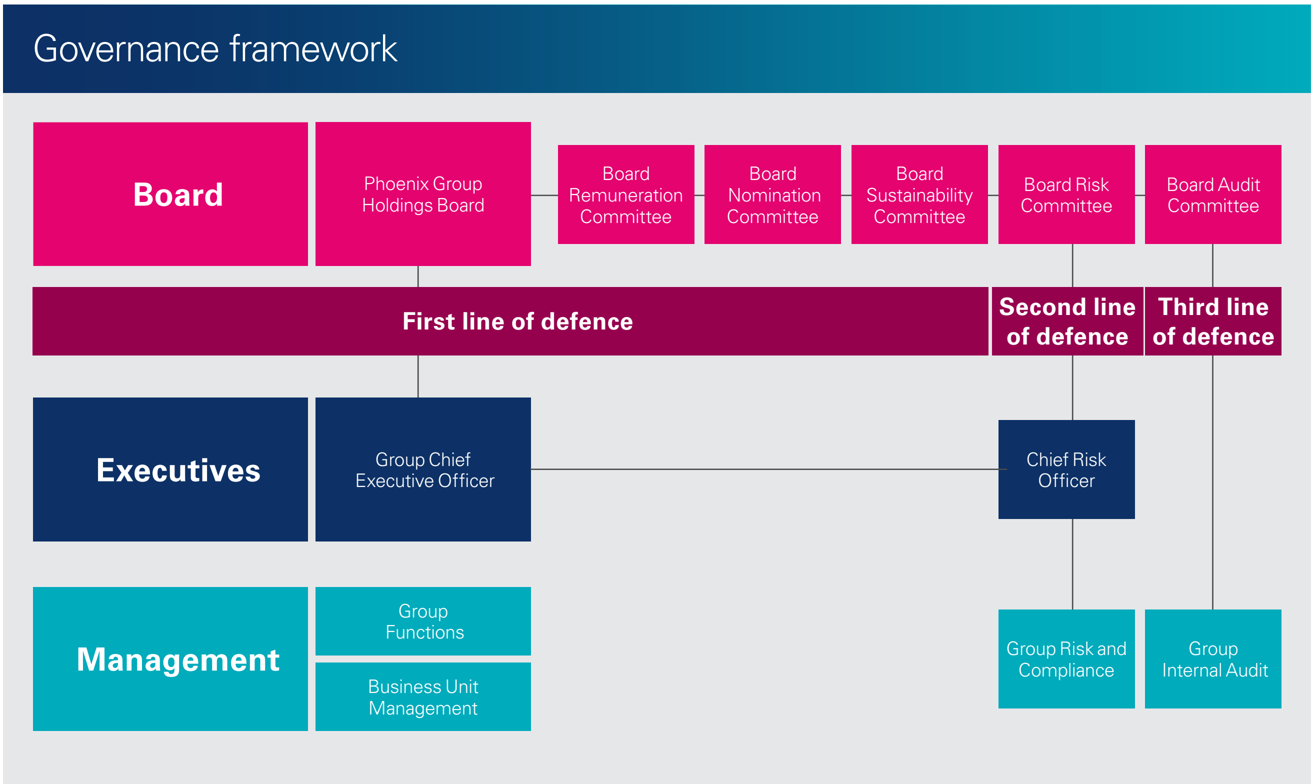
Group Risk conducts an annual assessment of the effectiveness of each function in the business in adhering to the requirements of the RMF. This provides assurance to management and the Boards that the RMF has been implemented consistently and is operating effectively across the Group.

First line: Management

Management of risk is delegated from the Board to the Group Chief Executive Officer, Executive Committee members and through to business managers. The first line is responsible for implementation of the RMF, ensuring risks to the Group and its customers, shareholders, colleagues and society are identified, assessed, controlled, monitored, managed and reported.

Second line: Risk oversight

Independent oversight of risk management is provided by the Group Risk Function through advice, guidance, review, challenge, opinion and assurance; their views are reported to the Board Risk Committee. Group Risk's purpose and responsibilities are set out in the Risk Mission, Mandate and Plan, which is presented to the Board Risk Committee for approval annually.



Third line: Independent assurance
Independent verification of the adequacy and effectiveness of internal controls and risk management is provided by the Group Internal Audit function, reporting their output to the Group Board Audit Committee.

The governance framework in operation throughout the Group can be found in the chart above.

EMERGING RISK

The Group defines an emerging risk (or opportunity) as an event that is perceived to be potentially significant but is not yet fully understood. Mitigating action may not be necessary until further information is known about the possible impact. Emerging risks could either be completely new risks or connected with existing risks in unfamiliar conditions.

The distinction between a current risk and an emerging risk predominantly relates to the amount of available information, with fewer details available for emerging risks meaning the likelihood and severity impacts must be estimated. Emerging risks or opportunities can typically take longer to crystallise, but in many cases immediate action is needed so risks can be pre-emptively mitigated or opportunities fully maximised. Whilst any estimates have an element of subjectivity, they are validated during Management Board and Board Risk Committee discussions. These conversations help drive out potential new risks and opportunities, drawing on the collective expertise and experiences of senior individuals. The Group captures emerging risks and opportunities in a detailed log and examples of these are outlined in the table on page 89.

STRATEGIC RISK MANAGEMENT

Strategic risks threaten the achievement of the Group's social purpose and enterprise strategy. The Group recognises that core strategic activity brings with it exposure to strategic risk.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Life Companies' and Group's strategic ambitions.

RISK AND CAPITAL MODELS

A continuous process is followed for identification and assessment of risk types and the corresponding resilience of the Group's capital position. The Group continually strives to enhance its internal risk and capital models and the related modelling must be sufficiently accurate to enable appropriate ranking and management of risks.

Under Solvency II, the development and production of any Internal Model output contributing to regulatory capital requirements must comply with validation standards. This is supported by a Model Governance Policy, which sets out the standards that must be satisfied to demonstrate meeting Solvency II requirements. The Internal Model output is used within the ORSA process to provide insight into risks associated with Group objectives.

Our Stress and Scenario Testing Programme uses the Internal Model to assess the capital impact of a range of plausible and extreme stresses.

RISK CONTROL PROCESSES AND REPORTING

Identification, assessment, management and reporting of risks, including learning lessons from incidents, is undertaken across the three lines of defence, and reported through business and management governance to the relevant Boards and Committees.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place and any change in risk exposure since the Group's 2019 Annual Report and Accounts, published in March 2020. These risks reflect the impact of the ReAssure Group plc acquisition on the enlarged Group's risk profile.

Management and the Board Risk Committee have carried out a robust assessment of principal risks and emerging risks. As a result of this, two new strategic risks around 'Open business' and 'Delivery of change' have been introduced. This recognises the growing importance of managing risk in these areas to enable the Group to effectively deliver its strategic objectives.

In addition, a principal risk in the Group's 2019 Annual Report and Accounts involving customer proposition development has been combined with our 'customer outcomes' principal risk. This reflects the importance of delivering propositions that meet the evolving needs of our customers across our Heritage and Open businesses.

Further details of the Group's exposure to financial and insurance risks and how these are managed are provided in note E6 and F4 (to the IFRS consolidated financial statements).

Change in risk: Risk improved · No change · Risk heightened · N New principal risk

Strategic priorities: 1 Manage capital · 2 Create value · 3 Meet customer needs · 4 Sustainability · 5 Inspire our people

STRATEGIC RISK

Risk	Impact	Mitigation	Strategic priorities	Change from last year
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	The Group is exposed to the risk of failing to drive value through inorganic growth opportunities, including acquisitions of life and pensions books of businesses. The transition of acquired businesses into the Group could introduce structural or operational challenges that result in the Group failing to deliver the expected outcomes for customers or value for shareholders.	The Group continues to assess new inorganic growth opportunities and applies a clear set of criteria to assessing these opportunities. Our acquisition strategy is supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing customer outcomes and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigants are identified. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. The Group continues to actively manage operational capacity required to deliver its strategy, including transition activities.	1 2 3	No change Phase 1 of the Standard Life Assurance integration is substantially complete with Phases 2 and 3 progressing well. We remain on track to deliver our synergy targets. In July 2020,the Group successfully completed the acquisition of ReAssure Group plc bringing additional scale to the Heritage business and enhancing our key attributes of cash generation, resilience and growth. Integration of the ReAssure Group plc into the wider Group is underway. Following the ReAssure Group plc acquisition, we have completed the Part VII transfer of business acquired from L&G and migrated customers to our in-house administration platform.

STRATEGIC RISK CONTINUED

Risk	Impact	Mitigation	Strategic priorities	Change from last year
The Group's strategic partnerships fail to deliver the expected benefits	Our strategic partnerships are a core enabler for delivery of the Group's strategy; they allow us to meet the needs of our customers and clients and deliver value for our shareholders. The Group's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Group's strategic partnerships do not deliver the expected benefits. Some of our key strategic partnerships include: **SLA plc:** Provides investment management services to the Group including the development of investment solutions for our customers. **TCS:** Our enlarged partnership with TCS is also expected to support growth plans for our Open business, enabling further digital and technology capabilities to be developed to support enhanced customer outcomes. **HSBC:** The Group is continuing its plan to transfer all fund-accounting services to HSBC, enlarging and enhancing our current partnership.	The Group has in place established engagement processes with SLA plc to oversee and develop the strategic partnership. These processes will be adapted to reflect the new simplified extended strategic partnership between the Group and SLA plc that was announced in February 2021. The Group's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of our enlarged partnership. We have in place established processes to oversee services provided by HSBC.	2 3 4	Risk improved The changes announced by the Group and SLA plc in February 2021 to simplify and extend the strategic partnership lead to an improvement in this risk, including the conclusion of all legacy issues related to services and expenses in relation to the Transitional Services Agreement, Client Service Proposition Agreement and certain other agreements between the Group and SLA plc entered into when the Group acquired the Standard Life Assurance businesses. The Group continues to effectively develop the partnership with TCS as they support our strategic deliverables. Most notably, in 2020 the blueprint for Phase 3 of the Group's Standard Life Assurance transition activity was finalised and signed with TCS; this was a significant milestone in progressing transition activity. Other strategic activity involving both parties continues to be assessed for COVID-19 impacts with actions being taken to protect strategic and BAU activity.
The Group fails to deliver long-term growth in its Open business	The Group's Open business has strong foundations and is central to our purpose of helping people secure a life of possibilities. It is also fundamental to our plans of delivering the Wedge which assumes that Open business growth can offset the run-off from the in-force business and bring sustainability to organic cash generation. Significant negative reputational damage could occur if the Open business fails to deliver against its strategic objectives, particularly as the Group seeks to promote a 'customer obsessed' mind-set underpinned by strong retention and consolidation as customers journey to and through retirement.	The Group's new Business Unit structure brings renewed focus and accountability. The key areas of growth are Workplace, Customer Savings & Investments and Retirement Solutions. Each Business Unit will hold an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape and the Group's overall purpose and objectives. As part of the Annual Operating Plan the Group is committed to making significant investment in our Open business which will include propositions which are driven by customer insight. The Group is established in the Bulk Purchase Annuity ('BPA') market and continues to invest in its operating model to further strengthen its capability to support its growth plans. For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying the Group's rigorous Capital Allocation Framework.	2 3	N New Principal Risk

Change in risk: Risk improved · No change · Risk heightened · N New principal risk

Strategic priorities: 1 Manage capital · 2 Create value · 3 Meet customer needs · 4 Sustainability · 5 Inspire our people

STRATEGIC RISK CONTINUED

Risk	Impact	Mitigation	Strategic priorities	Change from last year
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition, there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to wider Environmental, Social and Governance ('ESG') risks and delivering on our social purpose; for example, failing to meet our sustainability commitments. COVID-19 has amplified expectations for delivery of the Group's social purpose and sustainability vision. A failure to deliver could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks.	A Group-wide project is underway to enhance our approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's RMF, which will meet the requirements of Supervisory Statement 3/19. In March 2020, the Group became a signatory to the Task Force on Climate-related Financial Disclosures ('TCFD'). Our disclosures in line with TCFD recommendations, including planned future priorities across each of the TCFD focus areas are outlined on page 67. Work is in progress to fully embed material climate-related risks into the Group risk policies. The Group Board has also approved a new Sustainability Risk Appetite Statement. Our new sustainability strategy has evolved to respond to the changing needs of our stakeholders and we have set targets to monitor progress towards our sustainability commitments. Further details on our sustainability strategy are available in our Sustainability Report. The Group continues to actively engage with regulators on progress with all climate change and sustainability-related deliverables.	1 2 3 4	No change The TCFD disclosures (page 67) provide an overview of progress against the recommendations and planned future priorities across each of the TCFD focus areas including, developing internal climate risk appetites linked to metrics and targets framework, embedding climate risk considerations within the Group's RMF and developing internal climate risk reporting. In 2020 the Group committed to supporting the goals of the 1.5° Paris Agreement to limit global warming to 1.5°C above pre-industrial levels, and the Group has set a target of being net-zero carbon by 2025 across our operations and by 2050 across our investment portfolio. Later in 2021 the Group will be participating in the Bank of England's Climate Biennial Exploratory Scenario exercise ('CBES').
The Group does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute the Group's strategic objectives	The Group's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. The risk could materialise both within the Group and our strategic partners. This could result in the benefits of change not being realised by the Group in the timeframe assumed in our business plans and may result in the Group being unable to deliver its strategic objectives.	The Group's Change Management Framework is to be strengthened over 2021 with a revised change model, consistent with ensuring empowerment and accountability within Business Units to effectively deliver change. An enhanced prioritisation model will be implemented, with clearer alignment to the Group's Strategic Framework. Information setting out the levels of resource demand and supply, both a current and forecast view, will continue to be provided to accountable senior management so that informed decision-making can take place, with all risks to delivery appropriately identified, assessed, managed, monitored and reported.	2 3 4	N New Principal risk

CUSTOMER RISK				
Risk	**Impact**	**Mitigation**	**Strategic priorities**	**Change from last year**
The Group fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers	The Group is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage for the Group and/or financial losses. In addition a failure to deliver propositions that meet the evolving needs of our customers may result in a failure to deliver our purpose of helping people secure a life of possibilities.	The Group's Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed. The Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, is designed to detect where our customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group has a suite of customer policies which set out key customer risks and minimum control standards in place to mitigate them. We maintain a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes. The Group's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.	2 3 4	= No change Throughout the pandemic the Group has continued to provide ongoing support to customers, including those most vulnerable, both when paying out on their protection plans and when making decisions about their life savings during this period of uncertainty. In addition, one-off initiatives have been undertaken to support customers, with all changes being communicated clearly. In 2020, the Group continued to make significant investments in our propositions, driven by customer insight, with the completion of an enhanced client analytics tool, in-scheme drawdown functionality and the launch of a workplace ESG passive default fund. Following the ReAssure Group plc acquisition, we have completed the Part VII transfer of business acquired from L&G and migrated customers to our in-house administration platform. Work is ongoing to ensure that customer service for the transferring customers meets our internal standards.
OPERATIONAL RISK				
The Group is impacted by significant changes in the regulatory, legislative or political environment	Changes in regulation could lead to non-compliance with new requirements that could impact the Group's fair treatment of its customers. These could require changes to working practices and have an adverse impact on resources and the balance sheet. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	The Group undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Group to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.	1 2 3	= No change There is some uncertainty as to whether the UK government will change the current regulatory and legislative requirements in a post-Brexit environment but it is anticipated that any such change will include a sufficiently long lead in time to allow the Group to react appropriately. There is a lack of clarity in relation to how the post-Brexit environment will impact former UK customers who are now resident in EEA countries. The Group is working with UK regulators who are, in turn, working with European regulators, to better understand the situation. The Group view is that it planned appropriately and as a result has communicated, and will continue to communicate with these customers to ensure they are fully aware of any potential implications.

Change in risk: Risk improved · No change · Risk heightened · New principal risk

Strategic priorities: 1 Manage capital · 2 Create value · 3 Meet customer needs · 4 Sustainability · 5 Inspire our people

OPERATIONAL RISK CONTINUED

Risk	Impact	Mitigation	Strategic priorities	Change from last year
The Group or its outsourcers are not sufficiently operationally resilient	The Group is exposed to the risk of causing intolerable levels of disruption to its customers and stakeholders if it cannot maintain the provisions of important business services when faced with a major operational disruption to core IT systems and operations. This could occur either within our own organisation or those of our primary and downstream outsourcers. The Group is also increasing its use of online functionality to meet customer preferences. This, coupled with a move to home working, exposes the Group to the risk of cyber- attacks. Regulatory guidance in respect of operational resilience is expected to be published in 2021, together with a timetable to achieve full compliance. Failure to meet this timetable will expose the business to the potential for regulatory censure and reputational damage.	The Group has established business continuity management frameworks that are subject to an annual refresh and regular testing. The Group has also established an Operational Resilience Programme which will define and implement an operational resilience framework that will enable regulatory compliance with the new guidelines. The Group's response to COVID-19 has contributed towards the mitigation of some aspects of this risk; the current working from home model significantly reduces the exposure to a number of physical risks which could cause disruption to our important business services. The Group continues to utilise cyber security tools and capabilities in order to mitigate Information Security and Cyber risk. Our specialist Line 2 Information Security & Cyber Risk team provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.	1 2 3	Risk heightened There are three core drivers for the heightened risk assessment: COVID-19 could still adversely impact the operational resilience of the Group and its operations both in the UK and globally, in regions where some our outsource partners have a presence. Whilst many potential exposures can be effectively mitigated, a large-scale loss of colleagues on a temporary or more permanent basis is more challenging to resolve in the short-term. The threat posed by an Information or Cyber Security breach that affects the availability of the core information technology assets, which underpin the delivery of important business services to our customers, is considered to be increasing. This inevitably leads to greater interest from cyber criminals; subsequently it is critical that the ongoing commitment to continually improving security controls, where appropriate, is maintained. The scale of strategic customer transformation activity across the Group over the coming two to three years creates increased potential for operational disruption to occur.
The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy	Delivery of the Group's strategy is dependent on a talented, diverse and engaged workforce. Periods of prolonged uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver our strategy. This risk is inherent in our business model given the nature of our acquisition activity and specialist risk management skillsets. Potential areas of uncertainty include the transition of the Standard Life Assurance and ReAssure businesses into the Group and the expanded strategic partnership with TCS. Prolonged home working, caring and childcare lockdown implications and extended distancing due to COVID-19 can affect colleague engagement, wellbeing and productivity.	Timely communications to our colleagues aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against our plans. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals. Following the transition to working from home due to COVID-19, the Group has conducted regular Colleague Snapshot Surveys to monitor colleague engagement levels and identify any concerns; appropriate actions are taken following analysis of the results. The Group continues to actively manage operational capacity required to deliver our strategy. This is particularly pertinent given the increasing demands on our workforce at this time. A project to define our 'Future Ways of Working' is underway which is likely to offer colleagues greater flexibility in both where and how they choose to work in future.	1 2 3 5	No change There has been a significant increase in engagement scores in our colleague surveys during 2020. However, there remains the potential for colleague engagement, wellbeing and resilience to be adversely affected by ongoing COVID-19 restrictions, prolonged home working and organisational design changes. The Group continues to manage this carefully through cross-organisational collaboration, health and wellbeing support and regular communications to staff. The Group successfully rolled out its Unified People Proposition creating a more aligned experience for our colleagues. This means the Group is prepared for future acquisition and transition activity, and will be able to respond flexibly to future business needs. The increased scale and presence of the Group, and our success in multi-site and remote working, gives us greater access to a larger talent pool to attract in the future. The 'Phoenix Story' launched in summer 2020 bringing renewed societal and business purpose to the Group. Our colleagues have reacted positively to this.

Risk	Impact	Mitigation	Strategic priorities	Change from last year
MARKET RISK				
Adverse market movements can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change, including risks from the transition to a low carbon economy.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Group continues to implement de-risking strategies to mitigate against unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates and foreign currencies. The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed. The Group regularly discusses market outlook with our asset managers.	1 2 3	Risk heightened The potential for adverse market risk is further heightened from March 2020 due to the prolonged period of low interest rates and ongoing uncertainty regarding the external environment, particularly COVID-19. Markets reacted favourably to the positive news on the COVID-19 vaccines, but there remains significant uncertainty over the timing and extent of any recovery and the medium to longer term economic consequences of the pandemic. The Group implemented a number of management actions in 2020 that provided resilience against unanticipated market movements. Further contingency actions are available to help manage the Group's capital and liquidity position. The Group's Stress and Scenario Testing Programme considered the changes to the environment as a result of COVID-19 and the potential future implications of the pandemic. During 2020, and as a consequence of COVID-19, a number of our Unit Linked Property funds were put into suspension due to valuation uncertainty; we managed this in line with our standard fund deferral process. At the time of writing the majority of these funds are now out of suspension. Our exposure to residential property continues to increase as a result of our BPA investment strategy, however, exposures are currently relatively small in the context of the Group's AUM and remain within our risk appetite.
INSURANCE RISK				
The Group may be exposed to adverse demographic experience which is out of line with expectations	The Group has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then the Group will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Group continues to manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Group actively monitors persistency risk metrics and exposures against appetite across the Open and Heritage businesses. Where required the Group continues to take capital management actions to mitigate against adverse demographic experience.	1 2	Risk heightened The heightened risk exposure reflects increased uncertainty around future demographic experience as a result of COVID-19 impacts, particularly mortality, longevity and persistency risk. The long-term impact of COVID-19 on both longevity and persistency experience is not yet clear. The Group has monitoring and triggers in place to ensure current assumptions remain representative of our view on future experience. The Group completed six external bulk annuity transactions in 2020 with a combined premium of c. £1.8 billion. Consistent with previous transactions, we continue to reinsure the vast majority of the longevity risk with existing arrangements reviewed regularly.

Change in risk: Risk improved | No change | Risk heightened | New principal risk

Strategic priorities: 1 Manage capital | 2 Create value | 3 Meet customer needs | 4 Sustainability | 5 Inspire our people

CREDIT RISK

Risk	Impact	Mitigation	Strategic priorities	Change from last year
The Group is exposed to the risk of downgrade or failure of a significant counterparty	The Group is exposed to the risk of downgrades and a deterioration in the creditworthiness or default of investment, reinsurance or banking counterparties. This could cause immediate financial loss or a reduction in future profits. The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations.	The Group regularly monitors its counterparty exposures and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Group regularly discusses market outlook with our asset managers. For mitigation of risks associated with stock-lending, additional protection is provided through indemnity insurance.	1 2	Risk heightened The risk of unexpected downgrades and defaults within the Group's credit risk portfolio is heightened as a result of market volatility and wider economic and social impacts arising from COVID-19. Throughout 2020, the Group took de-risking action to increase the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital. The Group continues to increase investment in illiquid credit assets as a result of BPA transactions. This is in line with our strategic asset allocation plan and within our risk appetite.

EMERGING RISKS AND OPPORTUNITIES

The Group's senior management and Board take emerging risks and opportunities into account when considering potential outcomes. This determines if appropriate management actions are in place to manage the risk or take advantage of the opportunity.

Examples of some emerging risks and opportunities the Group currently considers are listed in the table below.

Risk title	Description	Risk Universe category
Market disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
Pensions dashboard	An industry-wide dashboard giving customers a single view of their defined benefit, defined contribution and State pensions. There is an opportunity to play a leading role in the development of the dashboard and to attract pension pot consolidation and deliver good customer outcomes.	Customer
Addressing UK savings gap	Generations of UK savers face projected funding shortfalls in retirement. The Group is seeking to address this gap through investment and growth in the Open business.	Customer
COVID-19 aftershocks	Multiple political, economic, social, technological and global impacts emerged as COVID-19 pushed the global economy into a recession.	All categories

VIABILITY STATEMENT

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Board has completed an assessment of the prospects and viability of the Group over a five-year period to December 2025.

ASSESSMENT PROCESS AND KEY ASSUMPTIONS

The Group's prospects are assessed primarily through its strategic and financial planning process. This strategy is outlined within the Strategic Report of the Annual Report and Accounts. The Board activities include an annual strategy session and it fully participates in the annual strategic planning process by means of a Board meeting to review and approve the Annual Operating Plan ('AOP').

The output of the AOP is a set of strategic priorities, detailed financial forecasts, and risks and contingent actions to be considered. The latest AOP was approved by the Board in January 2021 and incorporated the Group's assessment of the impacts of the COVID-19 global pandemic on customer behaviours, macroeconomic factors and the Group's financial position.

Progress against the AOP is reviewed monthly by both the Group's Executive Committee and the Board.

The Board has determined that the five-year period to December 2025 is an appropriate period for the assessment, being the period over which the Directors set internal and external targets, and the period covered by the Group's Board-approved AOP.

The Board has also made certain assumptions when making the assessment and these include the following:

- no change in stated stable and sustainable dividend policy;
- that corporate acquisitions are not relevant, as any acquisition would only be progressed on the basis it meets the Group's stated criteria and capital allocation framework; and
- the stresses calculated occur on 1 January 2021 with no allowance for any recovery or contingent actions available, but do take into account the impact of any appropriate Solvency II transitionals recalculation.

ASSESSMENT OF VIABILITY

In making the viability assessment, the Board has undertaken the following process:

- It considered Group prospects, taking into account current position and the principal risks and uncertainties that it is facing as outlined above;
- It defined that viability is maintaining the capability to satisfy mandatory liabilities and meet external targets;
- It reviewed the AOP which considers profits, liquidity, solvency and strategic priorities and the impacts of management actions on the Group. The AOP was finalised in January 2021 and reaffirmed the Group's strategy;
- It completed stress testing to assess viability under severe but plausible scenarios, including two adverse stresses, with no recovery or contingent actions, which are deemed to be representative of the key financial risks to the Group as follows:
  1. Market stress – a combined market stress broadly equivalent to a 1 in 10-year event, calibrated to the Phoenix internal model, incorporating a fall in equity, property values and yields, with a widening of credit spreads.
  2. Longevity stress – longevity and yield stress broadly equivalent to a 1 in 10-year event, which implies a 1.2 year increase in life expectancy for a 65-year-old male and 1.0 year increase for a 65-year-old female, alongside a fall in yields.

- The stress testing was applied to an AOP that reflected a stress event, incorporating the Board's view of the most likely COVID-19 impacts on the Group's business, which includes an allowance for further downgrades;
- The Board considered further the impacts of COVID-19 on the Group including additional stress and scenario testing as detailed below;
- It completed reverse stress testing for the Group to understand how severe the above scenarios would need to be given the Group's current and expected levels of solvency and liquidity;
- It considered the principal medium to long-term risks facing the Group which have the potential to impact on viability as discussed in the Risk report above; and
- It completed a qualitative assessment of all strategic risks to the Group and contingent actions available that could be implemented should any risk materialise that threatens the Group's resilience.

The results of the stress testing, including a combination of individual scenarios, as disclosed in the Business Review Section, demonstrated that due to the Group's strong capital position, the resilience of the Group and the access to additional funding (including the Group's undrawn £1.25 billion unsecured revolving credit facility), the Group is able to withstand the impact in each case with regards to meeting all mandatory liabilities as they fall due, and continue to track towards meeting external targets assuming a partial recovery from the stress.

COVID-19

The Group's business has remained resilient during the COVID-19 pandemic. The Group has successfully been able to maintain its operational capability with almost all colleagues working from home. Operational capacity across the Group, and within our outsourcing partners, continues to be actively monitored by management and Boards. This ensures the Group is effectively prioritising activity and sufficient capacity exists to continue to meet business demands and prevent any adverse impact to customer outcomes and business performance.

COVID-19 has exposed the Group to increased mortality risk. Given the relative size of the business, this risk is less onerous than the longevity stress applied within the viability assessment, and hence no additional stress testing was deemed required in this regard.

COVID-19 has had a significant impact on the macro-economic conditions in which the Group operates. Whilst the Group's hedging strategy provides resilience in this regard, the Group's financial position retains exposure to volatile economic conditions.

Additional economic stress testing has been performed to demonstrate the impact of further downside scenarios on the Group's financial position, including severe and prolonged recessionary scenarios and a significant credit loss event (incorporating a full letter downgrade on 50% of the Group's bond portfolio). Although the assumptions applied in these scenarios are possible, they are considered low likelihood and do not represent our view of the likely outturn. Furthermore, whilst economic recovery under such scenarios is delayed compared to the base scenario applied in the AOP, it is assumed to take place before the end of the Group's five-year projection period.

The Board therefore believes that the market stress applied as part of the viability assessment (which assumes no economic recovery) appropriately allows for the macroeconomic risks to which the Group is exposed over the period of the viability assessment. The results of the additional COVID-19 scenario testing have however, been considered in the Board's overall assessment of the viability of the Group.

STATEMENT OF VIABILITY

Based on the results of the procedures outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of assessment.

Nicholas Lyons
Chairman

CONTINUED RESILIENCE IN A CHALLENGING YEAR

"During this extraordinary year, our governance has stood up strongly, underpinning the protection of our customers, colleagues and shareholders and the enhancement of our performance as we increasingly look to our wider role in society."

Market cap

£7.0bn

£5.40bn in 2019

Our Board has overseen a year of much achievement by Phoenix, underpinning the resilience of our model. As the COVID-19 situation emerged, the response from executive management and our Board was swift and effective.

From March 2020, starting before the UK lockdown commenced, our Board began holding weekly briefing meetings as well as the formal Board meetings, to monitor the ongoing situation, both operationally and financially. These changed to fortnightly after our AGM on 15 May 2020.

Our Board held three full Board meetings in May 2020 alone, with a focus on assessing our current and projected financial position under various scenarios, prior to deciding to recommend to shareholders the payment of the final 2019 dividend.

The Board was particularly focused on supporting our customers and the wellbeing of our Phoenix colleagues. It was opportune that 2020 was the first full year that Karen Green performed her role as our designated non-executive director for workforce engagement. I am very grateful to Karen for the diligence with which she has performed this role and the concern she has shown to ensure she provides a strong interface between the Colleague Advisory Forum and the Board. Two of our other non-executive directors, Wendy Mayall and Kory Sorenson, attended the last Colleague Advisory Forum meeting with Karen in November 2020, and I am keen that we continue to widen the interaction between our Board and our colleagues.

The Board is focused on the wider role of Phoenix in society. In December 2020, we established a new Board Committee, the Sustainability Committee, chaired by Karen Green. Sustainability is central to our Group's purpose and values. This new committee will not remove responsibility from other committees, but will oversee and bring together the Group's sustainability priorities in a coherent way.

We have an exciting governance agenda, aligning to changes in the wider environment. Diversity is an area where we must continue to make progress on all fronts. I am pleased that we comply with the Parker recommendation for FTSE 100 companies to have at least one ethnic minority director by 2021. We must do more and are looking at ways to do so in 2021.

During 2020, the Board continued to oversee the integration of Standard Life Assurance, which we acquired in 2018, and the acquisition of ReAssure from Swiss Re, which completed in July 2020. With that acquisition, our Board changed with the addition of

Highlights of 2020 Board activity

- **FEB:** EGM for ReAssure acquisition
- **MAR:** Covid 19; CEO succession; Dividend considerations
- **APR:** AGM
- **MAY:** CFO succession; ReAssure completion considerations
- **JUN:** Continued regular contact
- **JUL:** New Board appointments; ReAssure completion; Day 1 ReAssure integration; Board annual strategy session
- **AUG:** HY results
- **OCT:** Digital capability deep dive; Diversity, inclusion and capability deep dive

UK Corporate Governance Code
As summarised on page 94 and detailed in the Corporate Governance Report on pages 94 to 123, we complied in 2020 with all the provisions of the UK Corporate Governance Code ('the Code'). We have complied with all the provisions of the Code in its appropriate version in each of the last six years.

AGM votes in favour of all resolutions May 2020

96%

92% in 2019

FTSE position

70

91 in 2019

UK Corporate Governance Code

FULLY COMPLIANT IN 2020

Fully compliant in 2019

Culture and values deep dive

Sustainability Committee formation

NOV

DEC

External Board evaluation

Capital Markets Day

Sustainability deep dive

Christopher Minter and Hiroyuki Iioka as nominees of new strategic shareholders, Swiss Re and MS&AD respectively. Chris and Hiro have brought substantial experience and executive skills to our Board as well as additional international perspectives. At that time, Standard Life Aberdeen's shareholding in Phoenix reduced to a level where they were entitled to nominate one director instead of two to the Phoenix Board. As a result, Campbell Fleming left the Board. I wish to thank Campbell for his excellent, insightful contribution over two years on our Board.

In March 2020, we wished farewell to Clive Bannister after almost nine tremendous years as the Phoenix CEO. He was succeeded by Andy Briggs whom we were thrilled to welcome as our new CEO after a very thorough recruitment process. Andy has taken to the role with the skill and vigour we expected and the Board is very confident in his ability to drive Phoenix's strategy forward as the UK's largest long-term savings and retirement business. Jim McConville retired from the Board at the May 2020 AGM after eight successful years as the Group CFO, to be succeeded by Rakesh Thakrar, previously the Group's Deputy CFO. I am very pleased that our succession planning achieved this outcome.

Given the executive directorship changes and rotation of Non-Executive Directors over the last few years, the Board evaluation review undertaken towards the end of 2019 concluded that a period of Board stability would be preferable going forward (excluding the nominees from our strategic shareholders). So we undertook no non-executive recruitment in 2020.

Our Board evaluation review undertaken towards the end of 2020 was externally facilitated by Consilium Board Review who reported to the Board on 2 December 2020. Its conclusion was of a very strong Board performance, with extracts being:

"The Board is very able, well-led, has guided change deftly in a demanding working environment (COVID-19), and added value in the last year."

"Directors are cohesive, but independent-minded. The Chairman and Non-Executive Directors are committed to the business and contribute beyond the formal meetings."

"The Board has strongly encouraged and supported a clear and broader strategy that serves the needs of all its stakeholders."

"The governance structure, processes and implementation are very strong."

2020 was been a landmark year for Phoenix, completing the ReAssure acquisition, continuing to perform strongly across all our financial metrics, maintaining strong customer service and increasing our colleagues' engagement. Our market cap increased from £5.4 billion at the start of 2020 to £7.0 billion at the end of the year. Our share price outperformed the FTSE 100 and our peer index. All this was achieved against the enormously challenging COVID-19 backdrop. Our governance robustly supported that performance.

During this difficult year, I was grateful for the continued strong support of our shareholders, who approved our acquisition of ReAssure at a General Meeting in February 2020 with over 99.9% votes cast in favour; and approved all 28 resolutions at our AGM in May 2020 with at least 96% votes cast in favour of all resolutions. I am pleased that our AGM proceeded as scheduled on 15 May 2020, notwithstanding that being at the height of the first wave of the pandemic. We reacted quickly to enable the meeting to proceed, moving venue to our own premises and webcasting the proceedings with a facility to ask questions before the meeting.

I am very grateful for the support we receive from our biggest shareholders and strategic partners, Standard Life Aberdeen, Swiss Re and MS&AD.

My last comment, though, is to thank our people for their remarkable contributions and resilience in the face of great adversity. We look to the future with great optimism.

Nicholas Lyons

Nicholas Lyons
Chairman

THE BOARD AS A GUARDIAN OF **OUR PURPOSE AND VALUES**

The Board of Phoenix Group Holdings plc is the guardian of our purpose and values. A key focus of the Board's two-day strategic session in July 2020 was defining Phoenix's social purpose as the UK's leading retirement and savings business.

During 2020, the Board has overseen the redefining of the Company's purpose, values and strategic priorities. These are set out below and described in more detail on pages 4 to 5 and 26 to 45 of the Strategic Report.

The Board's activities in 2020, which are linked to our strategic priorities, are described on pages 96 to 97.

- The Board's role in redefining our purpose is highlighted on page 96
- The Board's commitment to our values and the promotion thereof is illustrated throughout this report.

Phoenix's purpose is helping people secure a life of possibilities

Our strategic priorities

MANAGE OUR CAPITAL POSITION

CREATE VALUE AND DELIVER DEPENDABLE CASH GENERATION

MEET CHANGING CUSTOMER NEEDS

PUT SUSTAINABILITY AT THE HEART OF OUR BUSINESS

INSPIRE OUR PEOPLE

Our common values

Passionate about doing the best for our customers, our colleagues and our investors.

Valuing what makes us different and our diversity of views.

Taking personal responsibility for the role we play in our Company and customers' future.

Always looking to grow, as individuals, as a team and as a business.

With the courage to ask questions, innovate and make bold decisions.

Read more about our **purpose, strategy and values → pages 4 and 5**

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE IN 2020

The following report illustrates how Phoenix Group Holdings plc has applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code (the 'Code') during 2020. It is the Board's view that during 2020 the Company has been fully compliant with the principles and provisions set out in the Code. The following schedule provides a summary of where this report illustrates Phoenix Group Holdings plc's compliance with the Code.

BOARD LEADERSHIP AND COMPANY PURPOSE

Purpose and values	pages 94 & 96
Strategic priorities	pages 94 & 96 to 97
Operation of the Board and conflicts of interest	page 95
Board activities during 2020	pages 96 to 97
Employee engagement	pages 104 to 105
Stakeholder engagement	pages 108 to 109
The Board's section 172 Companies Act 2006 duty	pages 109 to 111
Whistleblowing arrangements	page 118

DIVISION OF RESPONSIBILITIES

Operation of the Board (role and responsibilities)	page 95
Board composition	page 98
Our Board	pages 98 to 100
The Executive Committee	page 101

Division of responsibilities **page 112**
- The Chairman, Group Chief Executive Officer and Senior Independent Director
- Independence of Board members and appointment terms
- 2020 Board and Committee attendance

COMPOSITION, SUCCESSION AND EVALUATION

Nomination Committee report **pages 122 to 123**
- Role of the Committee
- Board succession
- Board changes and recruitment process
- Board diversity, including diversity policy
- Board evaluation

Skills, knowledge and experience **pages 98 and 113**
- Board composition pages 98 to 100
- Board education page 113

AUDIT, RISK AND INTERNAL CONTROL

Audit Committee report **pages 116 to 121**
- Role of the Committee
- Principal activities during 2020
- Auditor's appointment, effectiveness of external audit process, Auditor independence and external auditor Policy
- Consideration of Significant Matters relating to the Financial Statements

Risk Committee report **pages 114 to 115**
- Role of the Committee
- Principal activities and significant matters discussed in 2020
- Review of system of internal controls

REMUNERATION

Remuneration Committee report **pages 124 to 158**
- Role of the Committee
- Remuneration Committee Chair's letter
- Directors' Remuneration Report
- Remuneration at a glance
- Directors Remuneration Policy
- Annual Report on Remuneration

COMMITTED TO THE **HIGHEST STANDARDS OF GOVERNANCE**

The Phoenix Group Holdings Board focuses on the Group's strategy and performance, with input from its Board Committees.

The chart below sets out the main responsibilities of the Phoenix Group Holdings Board and its committees. More detailed operational and customer-focused matters are addressed at the subsidiary Board and Committee level. The Board has delegated specific responsibilities to its five standing Board committees, as shown below. The terms of reference of each of the committees can be found on the Company's website.

Phoenix Group Holdings plc Board

- Group strategy
- Group risk appetite
- Performance monitoring
- Major transactions
- External debt
- Group budget
- External/shareholder reporting

Audit Committee

Responsible for:
- Financial reporting
- Internal controls
- External audit
- Internal audit
- Whistleblowing

Risk Committee

Responsible for:
- Risk appetite and high-level risk matters
- The Group's Risk Management Framework

Sustainability Committee

Responsible for:
- Sustainability strategy
- ESG reporting
- Culture monitoring

Remuneration Committee

Responsible for:
- Group remuneration framework
- Executive Director remuneration
- Employee share schemes

Nomination Committee

Responsible for:
- Board and senior executive appointments
- Diversity and inclusion
- Board and senior executive succession planning

OPERATION OF THE BOARD

The Board is responsible to the shareholders and wider stakeholders for the overall performance of the Group. The Board's role is to provide entrepreneurial leadership, promoting the long-term sustainable success of the Company, generating value for shareholders and positively contributing to wider society, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval supported by a set of operating principles.

These matters include:

- Group strategy and business plans;
- oversight of the Group's culture;
- major acquisitions, investments and capital expenditure;
- financial reporting and controls;
- dividend policy;
- capital structure;
- the constitution of Board committees;
- appointments to the Board and Board committees;
- senior executive appointments; and
- key Group policies.

The schedule of matters reserved for the Board is available on the Company's website. Matters which are not reserved for the Board and also its committees under their terms of reference (which are available on the Group website), or for shareholders in general meetings, are delegated to the executive management under a schedule of delegated authorities approved by the Board.

Conflicts of interest

A register of conflicts of interest is maintained on behalf of the Board. The Directors each understand their responsibility to identify and manage conflicts of interest, bringing conflicts to the attention of the Board and the Group Company Secretary as required under the Companies Act 2006.

BOARD LEADERSHIP AND COMPANY PURPOSE

During a year of change and unprecedented global events, the Board has remained steadfast in ensuring Phoenix Group's commitment to high standards of corporate governance, leading the Group to continue to generate cash, maintain resilience, and foster the growth and long-term success of Phoenix for our stakeholders.

The Group's high standards of corporate governance are anchored to its compliance with the Code which sets standards of good governance for UK listed companies.

During 2020, we redefined our purpose to: helping people secure a life of possibilities. The strategic priorities approved by the Board and core to the achievement of the Group's purpose are highlighted on page 94, with further detail available on pages 4 to 5 and 26 to 45 of the Strategic Report.

THE BOARD DISCHARGING SECTION 172 COMPANIES ACT 2006 DUTIES

When making decisions, the Board has paid due regard to the matters set out in section 172 of the Companies Act 2006 relating to stakeholder considerations. The Company's section 172 statement can be found on page 60 of the Strategic Report. In addition, the way in which the Directors have exercised their section 172 duties is explained on pages 109 to 111 within this corporate governance report.

Our Board in action – what the Board did this year

Areas of focus	Board activities
Defining our purpose, values and strategy	• Redefining the Company's purpose and values • Reviewing the 'Phoenix story' • Consideration of our brand aspirations and opportunities • Defining our strategic priorities, approving the strategy and annual operating plan
Overseeing operational performance against strategy	• Approving and monitoring 2020 targets • Consideration and challenge of CEO updates on strategic performance • Driving the future sustainability of our business – growth of long-term cash generation focused on the expansion of our Open business, including Bulk Purchase Annuities ('BPA')
Financial management and performance	• Monitoring of the Group's solvency and liquidity positions • Recommendation of the 2019 Final Dividend payment and 2020 Interim Dividend – following detailed scenario testing in light of COVID-19 • Approval of funding arrangements for the ReAssure acquisition • Support for long-term cash generation through Open business expansion • Approval of capital allocation for the expansion of BPA activity
Engagement with Stakeholders	• Continual monitoring of customer service, operational resilience and colleague wellbeing during COVID-19 pandemic • Deep-dive session on digital engagement with customers • Consideration of 2019 Final Dividend payment in light of COVID-19 and its projected impact on stakeholders • Approval of announcement on Capital Markets Day, including new purpose of helping people secure a life of possibilities and net-zero carbon targets • PRA/FCA meeting with the Board • Interaction with colleagues through the Colleague Advisory Forum, chaired by the Designated Non-Executive Director for Workforce Engagement • Monitoring of investor feedback and analyst reports

Areas of focus	Board activities
Workforce policies and culture	• COVID-19 – workforce impact and working from home operating model • Group risk policies approval • Whistleblowing oversight • Deep dive on talent, capability, diversity and succession • Monitoring existing corporate culture, future aspirations and cohesion following the ReAssure acquisition
Sustainability	• Approving the formation of the Board Sustainability Committee • Approval of sustainability commitments, including net zero carbon commitments • Board deep-dive session on sustainability including external benchmarking • Monitoring progress against the Group's sustainability agenda
People strategy, Board changes and succession planning	• CFO succession • Appointment of Swiss Re and MS&AD nominee Directors • Board inductions and education/deep-dive sessions • Reviewing changes to the Executive Management Team and succession planning • Deep dive on talent, capability, diversity and succession
Risk management and assurance	• COVID-19 monitoring and stress and scenario testing • Approval of the Group's Risk Appetite Statement, Principal Risks and approach to identifying and managing emerging risks • Updates from the Board Audit Committee and Board Risk Committee
Corporate governance and reporting	• Simplified governance • Monitoring compliance with the Code • Externally facilitated Board effectiveness review • Holding a successful AGM on scheduled date (15 May 2020) reacting to COVID-19 restrictions

Key to strategic links

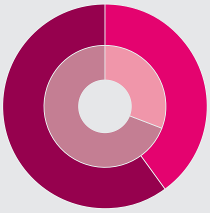
- Manage our capital position
- Create value and deliver dependable cash generation
- Meet changing customer needs
- Put sustainability at the heart of our business
- Inspire our people

THE GROUP IS GOVERNED BY **OUR BOARD OF DIRECTORS**

Valuing what makes us different and our diversity of views.

Board composition

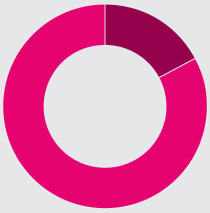
Gender balance
(including Chairman)



- Female 40% (outer) 31% (inner)
- Male 60% (outer) 69% (inner)

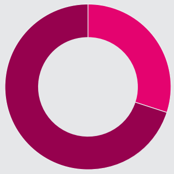
Outer Ring – Excludes shareholder nominees
Inner ring – Full Board including shareholder nominees

Balance of Non-Executive Directors v Executive Directors
(not including Chairman)



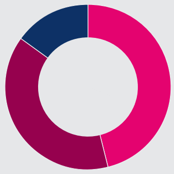
- Non-executive 83%
- Executive 17%

Independence of Non-Executive Directors
(not including Chairman)



- Independent 70%
- Non-Independent 30%

Tenure of Directors
(including Chairman)



- 0–3 years 46%
- 3–6 years 39%
- 6–9 years or more 15%

Board experience

As highlighted in the Chairman's Introduction on page 93, our 2020 external Board evaluation review stated that "The Board is very able, well-led, has guided change deftly in a demanding working environment (Covid), and added value in the last year." In addition, during 2020, the Nomination Committee reviewed the balance of skills, experience and knowledge of the Board which concluded that the Board has strong and diverse skills and experience. Following a review of the Board's succession plan in 2020, a more detailed Board skills audit is planned for 2021 to ensure the continued suitability of the Board's mix of experience to drive the Group's strategy forward, matched to skills, knowledge and diversity requirements. The Board's current balance of skills, experience and knowledge includes coverage across the spheres of 'mergers and acquisitions'; 'finance, accounting and audit'; 'customer'; 'insurance'; 'investment'; and 'operations'. More detail about the experience of individual Board members can be found below and on pages 98 to 100.

Committee membership

- A Audit
- N Nomination
- R Remuneration
- RI Risk
- S Sustainability
- Chairman

NICHOLAS LYONS
Chairman

N

Appointed: 31 October 2018
"As Chairman of Phoenix, I have plenty of opportunity to utilize experience gained over nearly 40 years in financial services; setting strategy, overseeing the implementation of our short and medium term plans and leading the Board on governance matters for the benefit of the Group and all our stakeholders. That experience was gained whilst investment banking at JP Morgan (in debt and equity capital markets and M&A); Lehman Brothers (as Managing Director in the European financial institutions group); the Pension Insurance Corporation (as Senior Independent Director); Catlin Group Limited, Miller Insurance Services Ltd (as Chair); Friends Life Group Limited and Friends Life Holdings plc amongst others."

External appointments:
Board of the British United Provident Association Limited (BUPA), Miller Insurance Services LLP and Convex Group Limited. Chairman of Clipstone Industrial REIT plc (due to cease on 1 April 2021); and Alderman in the City of London Corporation.

ANDY BRIGGS
Group Chief Executive Officer

Appointed: 10 February 2020
"I was thrilled at the opportunity to become Group CEO of Phoenix during 2020. I have a passion for our Group purpose and believe that my 30-plus years of experience in the insurance industry will help support our achievement thereof. I was most recently CEO, UK Insurance at Aviva plc; and prior to that worked as Group Chief Executive of Friends Life; Managing Director of Scottish Widows; Chief Executive of the Retirement Income division at Prudential; and Chair of the ABI."

External appointments:
Board member of the Association of British Insurers, Trustee of the NSPCC and Chair of their Income Generation Committee. Also the government's Business Champion for Older Workers and for the Ageing Society Grand Challenge. Awarded an MBE in the 2021 New Year Honours.

The Board comprises the Non-Executive Chairman, Group Chief Executive Officer, the Group Chief Financial Officer, one SLA-nominated Director, one Swiss Re-nominated Director, one MS&AD-nominated Director and seven independent Non-Executive Directors.

Changes to the composition of the Board are detailed in the Directors' Report on page 159, which names all persons who were, at any time during the financial year, Directors of the Board.

RAKESH THAKRAR
Group Chief Financial Officer

Appointed: 15 May 2020
"I was delighted to have been appointed Group CFO in May 2020, following six years as Deputy CFO and 20 years with Phoenix. My experience has spanned a breadth of finance and strategy-related roles, as well as numerous acquisitions and integrations. This has enabled me to develop a deep understanding of the insurance business and the clear financial framework that we operate within, allowing me to create value, deliver dependable cash generation and bring consistency to the next phase of our journey."

External appointments:
None

ALASTAIR BARBOUR
Senior Independent Director
A N RI

Appointed: 1 October 2013
"I have over 30 years of audit experience (obtained with KPMG) which enables me to effectively lead the Phoenix Group Holdings plc Audit Committee as its Chair. My experience as a non-executive director also enables me to act as the Phoenix Senior Non-Executive Independent Director, a role which I was honoured to take on in 2018. In addition to my roles at Phoenix, I am currently the Chairman of Liontrust Asset Management plc and a Director of both RSA Insurance Group plc and The Bank of N. T. Butterfield & Son Limited."

External appointments:
Chairman of Liontrust Asset Management plc, Director of RSA Insurance Group plc and Director of The Bank of N. T. Butterfield & Son Limited.

KAREN GREEN
Independent Non-Executive Director
A R S

Appointed: 1 July 2017
"I have over 30 years' experience in financial services and insurance, which encompasses M&A, corporate finance and private equity (Baring Brothers, Schroders, GE Capital and MMC Capital) and senior executive roles in the insurance industry (Aspen Insurance Holdings) including strategy, corporate development and as CEO of Aspen UK, comprising the Group's principal UK (re)-insurance companies. I am also a Non-Executive Director at Admiral Insurance Group PLC, a Council Member of Lloyd's of London and a Vice President of the Insurance Institute of London. My knowledge of the insurance industry from the perspective of both investment banking/corporate development and as a senior executive, enables me to contribute broadly to the development and execution of the Group's strategy."

External appointments:
Non-Executive Director at Admiral Group plc, a Non-Executive Director and Chair of the Risk Committee of Asta Managing Agency Limited and a Council Member of Lloyd's of London. Also Vice President of the Insurance Institute of London and a member of the Development Council of the Almeida Theatre Company.

HIROYUKI IIOKA
Non-Executive Director

Appointed: 23 July 2020
"I was privileged to become a Non-Executive Director of Phoenix in July 2020. The Group's vision, purpose and mission strongly resonate with me and I am excited to work to materialise them, to which I believe my experience in the global insurance industry will be devoted. I have worked for MS&AD, an insurance group operating globally, where I held various executive and director positions including at its UK businesses"

External appointments:
Senior General Manager, Head of Business Development Department for MS&AD Insurance Group Holdings, Inc. Alternate Non-Executive director of Challenger Limited, listed on the Australian Stock Exchange

WENDY MAYALL
Independent Non-Executive Director
RI S

Appointed: 1 September 2016
"I was delighted to take on my role as an Independent Non-Executive Director at Phoenix Group Holdings in 2016. My role enables me to use my experience in matters of governance, insurance and investments. During my tenure, Phoenix has grown enormously, and I have always felt incredibly well supported by an exceptional executive team, which is always open to challenge and input from the Independent Non-Executive Directors. My previous experience included being Chief Investment Officer at Unilever, Group Chief Investment Officer at LV=, and Chair of the Investment Committee at The Mineworkers Pension Scheme, a Government appointment to one of the largest pension schemes in the UK."

External appointments:
Non-Executive Director of Aberdeen Global Funds (Luxembourg) and Old Mutual Wealth Oversight Council. Also Senior Independent Director and Audit Committee Chair of Fidelity Investments Life Insurance Company.

CHRISTOPHER MINTER
Non-Executive Director

Appointed: 23 July 2020
"I believe passionately in the importance of the insurance industry in making societies more resilient. Hence it is an honour to bring my experience to bear at the Group. My executive experience has been at PwC, at Deutsche Bank (Head of Corporate Development and subsequently Global Head of DB Private Equity), and at Swiss Re where I manage a global portfolio of equity holdings in insurance businesses. I have also sat on boards both of private and public companies across the globe."

External appointments:
Head of Principal Investments & Acquisitions for Swiss Re.

JOHN POLLOCK
Independent
Non-Executive Director
RI A

Appointed: 1 September 2016
"After 35 years in insurance with Legal & General, ultimately as CEO of LGAS, Phoenix was a very natural next step for me. It has been extremely rewarding, helping Phoenix grow from the FTSE250 when I joined. Chairing the Risk Committee has allowed me to be closely involved in helping govern this growth to ensure sustainability for customers and shareholders and enabling the Executive to draw upon my experience of 12 years on a FTSE100 board."

External appointments:
None

BELINDA RICHARDS
Independent
Non-Executive Director
R RI

Appointed: 1 October 2017
"I really enjoy my role as a Non-Executive Director on the Phoenix Board as it enables me to use my strategic and operational experience gained in both an executive and non-executive capacity. As the Global Head of Merger Integration Services at Deloitte, and previously at EY, I have led over 50 major acquisition integrations – many of which were in the insurance and banking sectors. Given Phoenix's consolidation strategy this has helped me to add value to Phoenix and to our stakeholders."

External appointments:
Non-Executive Director, currently on the boards of Avast plc, The Monks Investment Trust plc and Schroder Japan Growth Fund plc. Also the Audit Chair and a Trustee of Youth Sport Trust.

NICHOLAS SHOTT
Independent
Non-Executive Director
A N S R

Appointed: 1 September 2016
"I've spent 30 years as an investment banker at Lazard. Initially I ran the European Media franchise, but for several years I've been a generalist, doing deals in a wide range of sectors and countries; I became European Vice Chairman in 2007 and Head of UK Investment Banking in 2009.

When I joined the Board in 2016, Phoenix was beginning to play a leading role in the consolidation of the closed life sector, so my M&A experience has been very relevant."

External appointments:
European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009 (joined Lazard in 1991 and became a partner in 1997).

KORY SORENSON
Independent
Non-Executive Director
R N RI S

Appointed: 1 July 2014
"Serving Phoenix and its stakeholders as a Non-Executive Director and Chair of Remuneration leverages my expertise in insurance, finance and human capital. As Managing Director, Head of Insurance Capital Markets, at Barclays Capital, I led a highly qualified team of finance, actuarial and accounting experts focused on the optimisation of capital resources via equity, hybrid and debt capital management as well as M&A, risk management, and life insurance securitisation. My 8 years on the board of SCOR SE, the world's 4th largest reinsurer, provide a deep perspective on the wider insurance market. My remuneration committee roles at Pernod Ricard SA and SGS SA give me a broader view of key considerations across geography and sector."

External appointments:
Non-Executive Director and Chair of the Audit Committee of SCOR SE, a Non-Executive Director and Chair of the Remuneration Committee of Pernod Ricard SA, a Non-Executive Director and member of the Audit Committee and Remuneration Committee of SGS SA and a member of the supervisory board of the privately-owned bank Gutmann AG.

MIKE TUMILTY
Non-Executive Director
S

Appointed: 1 September 2019
"My role on the Board at Phoenix allows me to utilise my experience which has been accumulated over the last 26 years in my time at Standard Life Aberdeen. My career has predominantly been spent in the Change, Technology and Operations arena. Given the significant change agenda that we have at Phoenix this gives me a great opportunity to utilise my experience for the benefit of the Group and all of our stakeholders."

External appointments:
Global Chief Operating Officer of Standard Life Aberdeen.

OUR BUSINESS, LED BY THE EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management of the Group is led by the Group Chief Executive Officer, who is supported by the Executive Committee ('ExCo'). 2020 was a year of change within ExCo and the executive management team, creating a stronger leadership team equipped to achieve the long-term success of our business. The roles and responsibilities of each ExCo member are set out below.

ANDY BRIGGS
Group Chief Executive Officer

- leads the development of the Group's strategy for agreement by the Board, to create a purpose-led organisation with sustainability at the heart and a brand that reflects a leading industry voice for savers and pensioners;
- leads and directs the Group's businesses in delivery of the Group strategy and business plan, to create a customer-obsessed organisation that can profitably grow organically and through M&A;
- creates a diverse team connected by common values, with market-leading capability and talent that is engaged and empowered to deliver, and performance manages the senior executive team;
- manages the Group's risk profile and sets clear standards and policies by making informed decisions and controlling risks in line with appetites, supported by an effective risk culture and strong regulatory relationships;
- leads the Group to deliver strong, dependable cash generation, underpinned by a resilient balance sheet, which delivers a safe and sustainable dividend with the potential for progression;
- oversees the evolution of the operating model through effective delivery of transformation and change, delivering target benefits and underpinned by operational excellence; and
- manages the Group's key external stakeholders.

MATT CUHLS
CEO ReAssure

- leads the delivery of Group strategy within the ReAssure businesses;
- safeguards policyholder outcomes and grows shareholder value within the ReAssure businesses, including by leading integrations into ReAssure businesses; and
- embeds a risk-conscious Group which recognises policyholder obligations in terms of service and security within the ReAssure businesses.

ANDY CURRAN
Chief Executive, Savings and Retirement, UK and Europe

- leads the development and delivery of the Open business strategy;
- enables better outcomes for customers; and
- redeploys excess capital at attractive rates to generate future predictable cash flows and offset the Heritage business run-off.

MIKE EAKINS
Group Chief Investment Officer

- leads the development and delivery of Group asset management and investment strategy;
- responsible for managing the Group asset risk to within the stated risk appetite;
- leads on the Sustainable Investing agenda for the Group, including net-zero carbon for assets by 2050;
- ensures strategic asset allocation and delivering ongoing performance of the portfolio; and
- supports the Group's requirements with investors, rating agencies, regulators, external directors on the asset management platform.

CLAIRE HAWKINS
Corporate Affairs and Investor Relations Director

- challenges the development of the Group's social purpose and strategy;
- develops an appropriate Investor Relations strategy that raises the profile of the Group and ensure engagement with investors and analysts;
- develops a market-leading sustainability strategy with plans to drive delivery across the Group;
- defines the public relations and public affairs strategy for external stakeholder groups; and
- develops and evaluates choices for the Group brand strategy.

TONY KASSIMIOTIS
Group Chief Operating Officer

- leads development and delivery of the Group's operating platforms in line with regulatory requirements, the risk universe and strategy;
- ensures the delivery of the Group's information technology and information security strategy;
- leads the management of the Group's long-term outsourcing arrangements; and
- ensures that the Group's procurement activities and operational shared services are efficient and effective.

JOHN MCGUIGAN
Group Customer Director

- leads the Group's customer function to drive operational and experience delivery for the Group's customer base;
- sets standards and policies for customer management and interaction; and
- provides customer oversight, complaint handling and remediation activity.

ANDY MOSS
Phoenix Life CEO and Group Director, Heritage Business

- leads development of the Heritage business strategy including the integration of acquired life businesses;
- focuses on optimising outcomes for customers in terms of service, value and security; and
- drives entity-wide financial performance, solvency and capital efficiency with due regard to regulatory requirements, risk appetite and risk strategy.

JONATHAN PEARS
Chief Risk Officer

- leads the Group's risk function, promoting informed decision-making and controlled risk-taking;
- oversees and manages the Group's relationship with the FCA and PRA; and
- supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.

RAKESH THAKRAR
Group Chief Financial Officer

- supports the Group Chief Executive Officer in formulating the Group strategy and managing the Group's key external stakeholders;
- develops and delivers the Group's financial business plan in line with strategy;
- ensures resilience, effective management and control of the Group's balance sheet and solvency position;
- develops and delivers the Group's debt capital strategy and other treasury matters;
- ensures effectiveness of processes to meet the Group's external reporting obligations; and
- enhances shareholder value through clear, rigorous assessment of growth opportunities and M&A in line with the Group's capital allocation framework.

SARA THOMPSON
Group HR Director

- leads the implementation of the Group's people strategy in order to recruit, retain, motivate and develop high-quality colleagues;
- provides guidance and support on all HR matters to the Group Chief Executive Officer, the Executive Committee, the Board and Remuneration Committee; and
- delivers HR services to the Group.

QUENTIN ZENTNER
General Counsel

- leads provision of legal advice to the Board, other Group company boards, the Executive Committee and senior management;
- oversees and coordinates maintenance of, and adherence to, appropriate corporate governance procedures across the Group;
- designs and implements a framework to manage legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations; and
- designs and implements a whistleblowing framework within the Group.

PASSIONATE ABOUT DOING THE BEST FOR OUR CUSTOMERS, COLLEAGUES AND INVESTORS

2020 was a year of unprecedented events that have impacted everyone. COVID-19 has changed our world and the way we live our lives. The Board has worked hard to ensure the continued robustness of our business – delivering cash, resilience and growth for the benefit of our stakeholders.

SPOTLIGHT ON THE BOARD'S DECISION TO PAY THE 2019 FINAL DIVIDEND

During the course of May 2020 the Board considered the payment of the 2019 Final Dividend. The impact of the payment on stakeholders was assessed using stress scenarios, testing solvency and liquidity positions. Despite the extreme market volatility resulting from COVID-19, the Board considered the Group's solvency position to remain robust in all modelled scenarios. The Board considered the need to protect our customers across the 14 million life and pension policies Phoenix has in-force and the impact of the dividend decision on them. Following such considerations and paying due regard to regulatory guidance and investor feedback, the Board concluded that the proposed 2019 Final Dividend of 23.4 pence per share was prudent and consistent with our risk appetite. See page 110 for more detail about the Board's consideration of the dividend payment on its stakeholders.

THE BOARD'S RESPONSE TO COVID-19

During 2020, the Board held weekly briefing meetings (changing to fortnightly after May 2020) to monitor management's continued ability to operate the business, robustly upholding customer service; and to ensure continued focus for the achievement of our strategic priorities and high standards of governance.

KEY AREAS OF BOARD FOCUS DURING THE PANDEMIC

- The Group's ability to support and protect customers, colleagues and the community, whilst protecting the long-term value of the Group.
OUTCOME: Continued delivery of strong customer service with extra support initiatives provided, including out of normal hours' service for NHS staff. Regular monitoring of the health and wellbeing of colleagues.

- Business continuity planning in action, to mobilise homeworking and ensure our sustained delivery of high standards of service to customers.
OUTCOME: 99% of employees could work remotely within 10 days of the first 2020 lockdown being announced, supported by the deployment of over 4,500 individual pieces of IT equipment.

- Close monitoring of the Group's solvency and liquidity positions, including our Solvency II surplus and shareholder capital coverage ratio.
OUTCOME: The Group's capital position was materially strengthened, despite COVID-19, from a combined Group pro forma surplus of £4.4 billion at 30 June 2020, to £5.3 billion at 31 December 2020 – a shareholder capital coverage ratio of 164%.

- Close monitoring of the Group's performance against its cash generation target of £800–900 million to YE20.
OUTCOME: The Group exceeded its revised target (£1.5 – £1.6 billion set in August 2020), achieving cash generation of £1.7 billion.

- The continued payment of all employees without utilising government support schemes or furloughing any staff.
OUTCOME: No government support schemes were accessed and all employees received full pay with none furloughed.

- Close monitoring of progress to complete the ReAssure Group plc acquisition despite the pandemic.
OUTCOME: The ReAssure acquisition successfully completed on 22 July 2020.

- Addressing the need to reorganise the Annual General Meeting format to react to rapidly changing Government guidelines.
OUTCOME: A webcast Annual General Meeting was held in May 2020 with all resolutions passed with 96.5% or more votes in favour.

PUTTING SUSTAINABILITY AT THE HEART OF OUR BUSINESS

Our contribution to a more sustainable world is fundamental to our purpose of helping people secure a life of possibilities.

THE BOARD SUSTAINABILITY COMMITTEE MEMBERSHIP

- Karen Green (Chair)
- Wendy Mayall
- Nicholas Shott
- Kory Sorenson
- Mike Tumilty

The Board of Phoenix Group Holdings plc approved the formation of the Board Sustainability Committee in December 2020 to ensure that the Group's sustainability activities and reporting could be brought together in a coherent way; and to provide appropriate oversight and challenge thereof. The Committee's first meeting was held in January 2021.

The Group has been involved in a wide variety of sustainability-related activities during the year. This activity resulted in our net-zero carbon commitment (Operations by 2025 and Investment Portfolio by 2050) and confirmation of our status as a signatory of the UN-supported Principles of Responsible Investment, announced in December 2020. More detail about these activities can be found in our Sustainability Report for the year ended 31 December 2020.

THE BOARD SUSTAINABILITY COMMITTEE'S KEY ROLE AND FOCUS

- **Sustainability strategy** – The Committee is responsible for ensuring the appropriateness of the Group's sustainability strategy. The sustainability strategy is aligned with, and forms part of, the overall Corporate Strategy. It sets out the Group's six key pillars of sustainability – customer, responsible investment, environment, suppliers, people and culture, and community engagement; with key performance indicators ('KPIs') set for each pillar.
- **Reporting** – The Committee supports the Board and Board Audit Committee in relation to the Group's sustainability reporting. For more information about the Group's sustainability reporting, including matters relating to climate risk see pages 40 to 41 and 67 to 78 of the Strategic Report.
- **Sustainability oversight** – The Committee reviews and challenges activities carried out within the business aligned with the sustainability strategy (approved by the Board) and associated risk appetites (set by the Board Risk Committee), ensuring that the strategy is embedded throughout the organisation.
- **Horizon scanning** – The Committee keeps sustainability best practice under review, referring to thought leadership and monitors the Group's position with regard to relevant emerging sustainability issues.
- **Culture** – The Committee assists the Board with its oversight of corporate culture, supporting the Group's purpose and values.

The Board Sustainability Committee receives regular MI and updates on progress against the sustainability strategy through the Group's ExCo Sustainability Committee, led by the Group Director of Corporate Affairs and Investor Relations.

The membership of the Committee provides coverage of cross-Board Committee membership to support engagement on matters of sustainability within the Group's governance framework. See the Board Directors' Committee membership details on pages 98 to 100.

FOCUS FOR THE YEAR AHEAD:

- Oversight of progress to embed the Group sustainability strategy and strides towards the Group's 2021 sustainability commitments.
- Holistic oversight of Group sustainability reporting in conjunction with the Board Audit and Risk Committees.
- Deep-dive sessions focused on key sustainability topics to support the fulfilment of the Committee's duties.
- Monitoring our corporate culture; and the Group's people, Diversity and Inclusion policies and practices.

> "I am very enthusiastic about the new Board Sustainability Committee, its role within the Phoenix Group and the positive impact it aims to provide – contributing to a more sustainable world for the benefit of our stakeholders."
>
> **Karen Green, Chair of the Sustainability Committee**

CONTINUING OUR FOCUS ON **COLLEAGUE ENGAGEMENT**

Colleague engagement is integral to our strategy and our ambition to be the best company that colleagues have worked for. Continuing to develop two-way communication with colleagues and the Board is a key element of this.

THE BOARD'S ENGAGEMENT WITH COLLEAGUES DURING 2020

Understanding how and ensuring that colleagues were well supported as they sought to adjust to the personal and business challenges resulting from COVID-19 including working remotely for the majority of the year was a key focus area for the Board.

In my role as the Designated Director for Workforce Engagement, I undertook a programme of virtual visits across the business, including our new ReAssure colleagues, and representatives of our colleague-led networks. Discussions were focused around the following topics:

1. The organisation's response to COVID-19 and colleagues' well-being
2. The current and likely future impacts of COVID-19
3. The volume and scope of organisational change within the Group after the acquisitions of Standard Life Assurance and ReAssure.
4. The Group's evolving approach to Sustainability
5. Options for the future world of work

Feedback from these sessions was provided to the Board, which allowed the Board to gain additional perspective and insights on the impact of the pandemic on colleagues and their well-being; in assessing change capability and capacity, and the evolution of the Group's strategy as a sustainable and growing business underpinned by a clear purpose to help people secure a lifetime of possibilities. A key theme in relation to the Group's response to the pandemic and in evaluating options for the future world of work was the need to adapt from the cultural 'ecosystems' around physical offices and finding ways to replicate this in an entirely virtual or hybrid environment.

OUR 2020 VIRTUAL COLLEAGUE ADVISORY FORUM

Our Colleague Advisory Forum in 2020 took place virtually in November and, as with our inaugural event in 2019, sought to build on discussions from my virtual visits and key priorities for the Group to allow for broad based discussion around three main areas: culture, people and employee well-being; the Group's ongoing strategic evolution, and organisational change/integration activity. Specific agenda items included:

- 2020 Board focus and activity
- The output from the Group's bi-annual Colleague Insights Survey
- Diversity and Inclusion
- Change and integration updates
- Our approach to Sustainability
- The workplace of the future

Colleagues were joined by Andy Briggs, Group CEO, other members of the Group Executive Committee and a number of Non-Executive Directors.

The Group's bi-annual survey highlighted an improved engagement score of 75% and the Forum focused on understanding the drivers behind this and some key focus areas for colleagues. These included options around continued home working; continuing communications around future business planning; and improving colleagues' work/life balance. There is clear support from colleagues for the Group's ambition to become a more diverse and inclusive workforce with the introduction of the 'Who We Are' app. This is a simple and confidential way for colleagues to share their data and help us build a picture of where we are today and is seen as a positive step. Additional information on our commitments to colleagues can be found within the 'Inspire our people' section of the Strategic Report.

Survey feedback from colleagues post the Forum was that over 92% of members felt more connected to the Board as a result and 94% of colleagues found the Forum very or extremely valuable.

HOW THE BOARD MONITORS AND ASSESSES CULTURE AND KEY THEMES ACROSS THE GROUP

Sara Thompson, the Group's HR Director, reports regularly to the Board on our people agenda. The Board has also held fortnightly update calls with Andy Briggs and members of the Executive Committee for most of 2020 alongside its regular meeting schedule with frequent updates on colleague wellbeing and organisational resilience generally. Following the acquisition of Standard Life Assurance in 2018 and ReAssure in 2020, embedding and reinforcing a common culture throughout the business is a strategic priority for both the Executive Committee and the Board. 2020 saw the launch of 'The Phoenix Story', which presents our strategic narrative, places focus on our unified set of values and embeds a common cultural thread throughout the Group (read more about The Phoenix Story on page 44 of the Strategic Report).

Alongside 'The Phoenix Story', the Board held a number of deep-dives on the following topics:

- ReAssure including people
- Digitisation strategy and related skills assessment
- Talent Strategy including Diversity and Inclusion
- Brand
- Future Ways of Working

Taking personal responsibility for the role we play in our company and customers' future.

Valuing what makes us different and our diversity of views.

"The speed with which the Group was able to transition to a fully remote working environment and adapt to the continuing challenges from COVID-19 whilst maintaining very high levels of customer satisfaction is a tribute to the extraordinary commitment shown by our colleagues. I have also been struck by the enthusiasm and passion from Colleagues in support of our internal and external communities, including the establishment of Enable, a network which focuses on Disability."

Karen Green, Designated Non-Executive Director for Workforce Engagement

"Engaging with members of the Phoenix Group Board and being a member of the Colleague Advisory Forum has given me the opportunity to communicate with our senior leaders and share my thoughts about the things that matter to me, like the mental wellbeing of our colleagues"

Ed Jackson, Investment Operations Unit Linked Manager (Colleague Advisory Forum 2020)

Passionate about doing the best for our customers, our colleagues and our investors.

BRINGING TOGETHER BUSINESSES – **OUR M&A STRATEGY IN ACTION**

In December 2019, the Phoenix Group announced the proposed acquisition of ReAssure Group plc. On 22 July 2020 Phoenix successfully completed the acquisition of ReAssure Group plc from the Swiss Re Group. Considerable regard was paid to the merits and rationale for the acquisition, completed over a period of transition for the Group, with the succession of the new Chief Executive Officer in March 2020, and against the backdrop of the COVID-19 pandemic.

The Board considered, amongst other matters, regulatory aspects associated with the acquisition; the allotment and issue of shares to fund part of the acquisition; and the Group's solvency and liquidity positions following completion of the acquisition – ensuring the continued robustness of the Group for the protection of its stakeholders. At a General Meeting held on 13 February 2020 shareholders voted 99.99% in favour of the ReAssure acquisition and 99.89% in favour of the allotment and issue of equity securities to Swiss Re whom Phoenix welcomed as a strategic shareholder along with MS&AD.

Following shareholder approval, the Board closely monitored progress towards Change in Control approval and completion in July 2020, having regard to the impact of the emerging COVID-19 pandemic on financial strength and operational capacity.

With the acquisition of ReAssure, two strong cultures have been brought together, united in our passion for customers.

BOARD EDUCATION

During 2020, the Board undertook five 'ReAssure completion modules'. These modules were designed to ensure that the Board was appropriately educated and informed about key matters relating to ReAssure, enabling the Board's continued ability to successfully lead the Group, equipped with appropriate knowledge and skills. Details of the modules can be seen on the following page.

Always looking to grow, as individuals, as a team and as a business.

Board education sessions – ReAssure completion modules

MAY 2020

Introduction to ReAssure – the Board received education from ReAssure's Chief Executive Officer covering its purpose; business model and business plan; organisational history; legal entity structure; products and policy counts; customer focus; assets, key relationships; and people and culture.

JUNE 2020

Customers and operations – the Chief Executive Officer of ReAssure provided an education session covering: ReAssure customers and its conduct framework embedding Treating Customers Fairly principles; ReAssure's operating model to support customer strategy; and other key priorities including operational risks, investment activity, and cyber.

JUNE 2020

ReAssure finance and actuarial function – the Board received an overview from the ReAssure Chief Financial Officer and Chief Actuary including: Year End 2019 Entity Structure and Solvency II Balance Sheets; Year End 2019 Cashflows; 2020–2022 Solvency II Capital Projections and Sensitivities; Year End 2019 Solvency II Balance Sheet Partial Internal Model vs Standard Formula; and 2020–2022 International Financial Reporting Standards Profit Before Tax Projections.

SEPTEMBER 2020

ReAssure asset management – the Group Chief Investment Officer provided an induction for the Board including: ReAssure asset management team and strategy; an overview of ReAssure investments portfolio; ReAssure key strategic initiatives; response to COVID-19; ReAssure Separation Programme and Asset Manager Oversight.

SEPTEMBER 2020

ReAssure risk and compliance function – the Board received an overview from the ReAssure Chief Risk Officer including: an overview of ReAssure's key risks, risk and compliance function, risk management framework and key risk topics such as cyber risk.

FOCUSED ON LONG-TERM SUSTAINABLE SUCCESS FOR OUR STAKEHOLDERS AND ENVIRONMENT

Passionate about doing the best for our customers, our colleagues and our investors.

Our key stakeholders

THE BOARD CONSIDERS THE FOLLOWING TO BE THE GROUP'S KEY STAKEHOLDERS:

Customers	Without our customers we would not exist. The Group's core purpose is centred on our customers (existing and potential), helping them to secure a life of possibilities. The Board recognises the responsibility it has to ensure the success of the business for all customers.
Colleagues	Our colleagues glue our common values together, working to achieve our strategic priorities in our pursuit of the Phoenix purpose. The Group's success would not be possible without the dedication and commitment of our talented colleagues.
Investors	The Group is dedicated to delivering long-term value to our shareholders and aims to maintain our stable and sustainable dividend policy through a continued focus on delivering cash, resilience and growth. As with our customers, without our shareholders we would not be the Group we are today. We have achieved growth and secured opportunities for all our stakeholders thanks to the support of our investors.
Suppliers	Our suppliers, including service providers and partners, are key to our success and the achievement of our strategic objectives. The relationship we maintain with our suppliers, strategic or otherwise is of vital importance in our drive to achieve our ultimate purpose of helping people secure a life of possibilities.
Our communities	We connect with our local communities and community partnerships. These communities comprise our colleagues, customers, suppliers and many other stakeholders. We understand the importance of building trust and inspiring confidence through community engagement and partnerships.
Government, trade bodies and regulators	Our relationships with the Government, trade bodies and regulators is of vital importance in our role in thought leadership and for our responsibility to communicate the views and concerns of our customers. Without the relationship the Group maintains with the PRA/FCA, we could not provide services for our customers and utilise opportunities for growth.

BOARD STAKEHOLDER ENGAGEMENT

COVID-19 and the restrictions associated with it created challenges for the Board's engagement with stakeholders during the year. Those challenges were overcome through improved digital capabilities and commitment to our purpose and values.

REGULAR COMMUNICATION WITH INVESTORS AND OTHERS

Phoenix Group places considerable importance on communication with investors and regularly engages with them on a wide range of topics. The Company's investor relations department is dedicated to facilitating communication with investors and analysts and maintains an active investors relations programme. See pages 59 and 64 of the Strategic Report for details regarding the Company's engagement with investors. The Board, supported by the CEO and Executive Committee successfully engaged with investors, analysts and proxy advisers through: meetings (including virtual meetings), the Group's Annual General Meeting and the virtually held Capital Markets Day. The Board experienced an increased scrutiny on the Group's ability to pay the 2019 final dividend, which required clear and regular engagement with our investors and regulators.

The Board ensured appropriate oversight and monitoring of our colleagues wellbeing and health during a very challenging and uncertain situation. The Board engaged with colleagues via the Designated Non-Executive Director for Workforce Engagement through the virtual Colleague Advisory Forum (also attended by two other Non-Executive Directors); our annual Colleague Insights survey; and regular updates from the HR Director and Chief Operating Officer. The ability of the Group to continue its service for customers was central to Board discussions (held weekly and then fortnightly during the first months of the UK COVID-19 pandemic), with particular focus on vulnerable customers and those most in need during the pandemic. The Board received feedback on customer satisfaction and closely monitored customer service performance, resulting in Board support for options such as: offering out-of-hours service for NHS workers; new ways for paying claims to enable customers to stay at home; and a fee holiday for smaller employers. The Board engaged with our communities through its consideration of charitable contributions with strong support for a £1 million donation to the COVID-19 relief effort, split between Age UK's Emergency Coronavirus Appeal and charitable organisations operating in the Group's regional offices' local communities. In the first part of 2020, prior to the pandemic, the former Group CEO Clive Bannister travelled to Mumbai to visit the headquarters of our strategic supplier, TCS, in order to understand their operations and to reinforce the relationship with our outsource service providers. Details of our broader stakeholder engagement can be found in the Strategic Report on pages 58 to 65.

The Board's fulfilment of its duty under section 172 Companies Act 2006 during 2020

Section 172 of the Companies Act 2006 requires each director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole In doing so, each director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

During the year, the Board has applied section 172 of the Companies Act 2006 in a manner consistent with the Group's purpose, values and strategic priorities (detailed on page 94 of this Corporate Governance report) having due regard to the Group's ongoing regulatory responsibilities as a financial services operation.

Examples of key decisions of the Board, their link to our strategic priorities, how the matters set out in section 172 have been considered and the outcome of those considerations is set out in the table on the pages 110 to 111 below, demonstrating how the directors of Phoenix Group Holdings plc have carried out their duties under section 172 of the Companies Act 2006. To support the fulfilment of the Directors' duties outlined above, each paper prepared for consideration by the Board contains an analysis of the potential impact of proposals to be considered by the Board in light of the factors contained in section 172.

KEY BOARD DECISION	PAYMENT OF THE 2019 FINAL DIVIDEND DURING THE COVID-19 PANDEMIC
Strategic Importance	**Consideration of section 172 matters**
Managing our capital position **Inspiring our people** **Creating value and delivering dependable cash generation**	• The Board considered the long-term impact of paying the 2019 Final Dividend on the Group's liquidity and solvency positions by reviewing the outcome of six stress scenarios relating to COVID-19 and associated economic recovery periods. The Board also considered the impact of the dividend decision on expectations relating to the Group's dividend policy. • A large proportion of our employees are Phoenix shareholders as a result of participation in the Group's employee share schemes. The payment of the dividend therefore enabled returns for those shareholder employees. • In reviewing the appropriateness of the payment or non-payment of the dividend, the Board spent time discussing the impact of its decision on the wider economy. • The Board focused on the Group's liquidity and solvency in light of the impact of COVID-19, by considering the stress scenarios referred to above. Those scenarios were also reviewed against the Bank of England's Financial Stability Report and Monetary Policy Report during May to assess the likelihood of the scenarios materialising. The Board was focused on ensuring a robust review was carried out before making its final decision to ensure the highest standards of business conduct were maintained, as expected by all our stakeholders. • Consideration was given to the impact of the non-payment of a dividend, where the dividend was financially supportable, on shareholders invested in Phoenix as an income stock. The Board considered feedback received from investors during the pandemic and the need to provide clarity about the intention to pay the final dividend.
OUTCOME	Following due consideration of all the matters set out in section 172, the Board determined that the payment of the 2019 Final Dividend was consistent with the Group's risk appetite having assessed the likely impact on the business and its stakeholders (including in the long term).

KEY BOARD DECISION	THE FORMATION OF THE BOARD SUSTAINABILITY COMMITTEE
Strategic importance	**Consideration of section 172 matters**
Meeting changing customer needs **Sustainability at the heart of our business** **Inspiring our people**	• When considering the need for a Board Sustainability Committee ('BSC'), the Board discussed the long-term impact of driving forward the Group's sustainability agenda. It was understood that the BSC's role would evolve and adapt with the dynamic nature of the sustainability environment. The BSC's role in overseeing the sustainability strategy was considered by the Board, noting that the associated commitments would benefit the business in the long term. Key commitments can be found on pages 9 and 10 of the Company's Sustainability Report. • The Board considered the impact of the formation of the BSC on Phoenix's employees and it was agreed that one consequence of the establishment of the Committee would be a clear signal to our colleagues that the Group was strongly committed to sustainability at the highest level of governance. The Board discussed the positive effects of this clear commitment for colleague engagement as feedback collated during the year suggested that the Group's approach to sustainability was a priority for colleagues. • The Board undertook a sustainability deep-dive session in December 2020, at the same time it considered the formation of the BSC. During this session, the Directors reflected on the positive impact our commitment to sustainability would have on our relationships with suppliers, customers and business partners. • The Board considered the importance of the establishment of the BSC in driving forward the Group's ability to contribute to a more sustainable environment for the benefit of all stakeholders, including future generations. • The Board also considered the impact of the decision on our ability to better support communities, noting that the BSC would provide enhanced oversight and challenge for sustainability initiatives within the business thus ensuring support for our communities was available and consistent across the Group. • The Group engaged Deloitte to provide guidance and an independent assessment of the Group's sustainability achievements and strategy and to support the decision-making process by the Board. The Board considered benchmarking data, comparing our progress and activities against those of our peers, to ensure the appropriateness of the Group's sustainability aspirations and steps being taken to achieve those aspirations. By engaging Deloitte, the Board was better able to meaningfully consider our ability to maintain a reputation for high standards of business conduct in the area of sustainability and beyond. • The Board considered the evolving expectations of Phoenix Group Holdings plc's shareholders when looking at the need for the BSC. During the Board's sustainability deep-dive session, referred to above, the expected levels of scrutiny on climate and sustainability agendas by investors was discussed.
OUTCOME	Following due consideration of all the matters set out in section 172, the Board approved the formation of the BSC with strong support from all directors. The formation of the new Committee was considered to be in the best interests of the Company as a whole and all its stakeholders and a decision to move the Group forward in its steps towards our sustainability aspirations. More detail about the new BSC can be found on page 103.

KEY BOARD DECISION	EXPANSION OF OUR OPEN BUSINESS AND BULK PURCHASE ANNUITIES ACTIVITY
Strategic Importance	**Consideration of section 172 matters**
Managing our capital position **Creating value and delivering dependable cash generation** **Meeting changing customer needs** **Sustainability at the heart of our business**	• Throughout 2020, the Board discussed the long-term strategic direction of the organisation – recognising both its position as the market leader in managing Heritage businesses but also focusing on the opportunities to expand our Open business and Bulk Purchase Annuities ('BPA') activity. When considering the opportunity to expand our BPA business, the Board aimed to balance the future long-term benefits for the Company with the short-term expense of material upfront capital allocation. In doing so, the Board considered improvements to capital efficiency to grow the Group's market share and the long-term consequences of sustainable long-term cash generation aligned with the Group's 'wedge' concept. More detail about the 'wedge' can be found in the Strategic Report on pages 14, 17, 32 and 84. The Board also considered other long-term benefits associated with expanding our Open and BPA businesses, including related investments in illiquid assets supporting our ESG agenda and proposition wherever possible. • The Board discussed feedback received about energy levels and workloads from the Colleague Advisory Forum. Through monitoring, the work involved in activities driving the strategic evolution of the business was considered to be manageable (boosted by investment in recruitment) resulting in long-term benefits for all stakeholders including colleagues. • The Board approved investment in assets which support our BPA business and support our communities and the sustainability of our environment. • By providing the Board with detailed plans and implementation roadmaps for driving the execution of strategic plans for expansion of our Open and BPA businesses, the Directors were able to consider and monitor potential impacts on the Group's reputation for high standards of business conduct and ensure that high standards of business conduct and governance standards were maintained following the decision to enable such expansion. • Throughout the year, investors were kept informed of developments to the Group's strategic direction through investor presentations and market announcements. When considering the decision to increase the Group's BPA capital budget to expand BPA activities, the Board paid due regard to the needs of its investors, including expectations about capital allocation and the ability to generate returns. The Board, through regular updates provided by management, monitored the Group's ability to pay dividends and generate growth for the benefit of its members, noting the overall impact of the strategy to maintain the strength of the Heritage business whilst expanding the Open business.
OUTCOME	Following due consideration of all the matters set out in section 172, the Board approved the plans to expand the Open business and BPA activities, including an increase in the Group's BPA capital budget. The expansion supports the concept of the 'wedge' and is expected to support significant incremental long-term cash generation. See pages 25 and 33 for more detail.

TAKING PERSONAL RESPONSIBILITY FOR THE ROLE WE PLAY IN OUR COMPANY'S AND CUSTOMERS' FUTURE

The members of the Phoenix Group Holdings plc Board of Directors understand their personal responsibilities as directors and the role they play in ensuring the long-term success of the Company and, thus, the future of its customers – striving towards helping people secure a life of possibilities. As a matter of good governance, the Board ensures the appropriate division of responsibilities on the Board, ensuring no existence of unfettered power nor over-reliance on any one person.

DIVISION OF RESPONSIBILITIES

The Chairman, Group Chief Executive Officer and Senior Independent Director

Nicholas Lyons is Chairman of the Board of Directors of the Company. There is a division of responsibility, approved by the Board, between the Chairman, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Andy Briggs, who is responsible to the Board for the overall management and operation of the Group. The Chairman's external commitments are set out on page 98 within this report. The Chairman was independent upon appointment and was appointed on the basis of committing two days per week to the Company.

The Senior Independent Director, appointed by the Board, is Alastair Barbour. His role is to be available to shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the annual appraisal of the Chairman's performance by the Non-Executive Directors. Descriptions of the roles and responsibilities of the Chairman, Group Chief Executive Officer and Senior Independent Director are available on the Company's website.

Independence of Board members and appointment terms

The Board considers the following Directors to be independent: Alastair Barbour, Karen Green, Wendy Mayall, John Pollock, Belinda Richards, Nicholas Shott and Kory Sorenson. The Board has considered the criteria proposed by the Code in assessing the independence of the Directors. The terms and conditions of appointment of our Non-Executive Directors are on the Group's website. The remuneration of the Directors is shown in the Directors' Remuneration Report on pages 124 to 158. The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and additional Board meetings and to devote appropriate preparation time ahead of each meeting.

Board meeting attendance

The Board met formally 10 times during 2020, including for a two-day strategy setting meeting. The Board met additionally for regular briefing meetings (over 15) to monitor the evolving pandemic situation. The Board considered it necessary to meet weekly and then fortnightly to ensure appropriate oversight of operations during the COVID-19 pandemic, to achieve the Group's strategic objectives and protect policyholders. The Non-Executives met with the Chairman three times without the Executive Directors present.

2020 Board and Committee attendance

The following Board and Committee attendance is for all formal Board meetings held during 2020. The Nomination Committee has confirmed its absolute satisfaction with the time and commitment given to Phoenix by all Directors.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
	Actual/Max	Actual/Max	Actual/Max	Actual/Max	Actual/Max
Chairman					
Nicholas Lyons	10/10				5/5
Executive Directors					
Clive Bannister (CEO)[1]	3/3				
Andy Briggs (CEO)[2]	8/8				
Jim McConville (Group FD)[3]	5/5				
Rakesh Thakrar (Group CFO)[4]	5/5				
Non-Executive Directors					
Alastair Barbour	9/10	8/8	8/9		4/5
Campbell Fleming[5]	7/7				
Karen Green	10/10	8/8		8/8	
Hiroyuki Iioka[6]	3/3				
Wendy Mayall	9/10		9/9		
Christopher Minter[7]	3/3				
John Pollock	10/10	8/8	9/9		
Belinda Richards	9/10		9/9	8/8	
Nicholas Shott	10/10	8/8		8/8	5/5
Kory Sorenson	10/10		9/9	8/8	5/5
Michael Tumilty	10/10				

1 Clive Bannister resigned from the Board on 10 March 2020.
2 Andy Briggs was appointed to the Board on 10 February 2020.
3 Jim McConville resigned from the Board on 15 May 2020.
4 Rakesh Thakrar was appointed to the Board on 15 May 2020.
5 Campbell Fleming resigned from the Board on 23 July 2020.
6 Hiroyuki Iioka was appointed to the Board on 23 July 2020.
7 Christopher Minter was appointed to the Board on 23 July 2020.

ALWAYS LOOKING TO GROW AS INDIVIDUALS, AS A TEAM AND BUSINESS

During the year, the Board has received education sessions and participated in deep-dive sessions covering the following subjects, helping the Directors to ensure their continued development as individuals and as a team.

SUSTAINABILITY

December 2020 – the Board undertook a deep-dive session including a focus on key changes in 2020 which increased the importance of sustainability such as COVID-19 and the Group's redefined purpose from a financial consolidator to a purpose-driven organisation; the establishment of the new Board Sustainability Committee and its role; delivery of 2020's sustainability commitments; an overview of the Task Force on Climate-related Financial Disclosures ('TCFD'); the evolution of the Group's sustainability strategy and sustainability benchmarking results.

VALUES AND CULTURE

December 2020 – the Board undertook a deep-dive session covering the Phoenix story, defining the common purpose of businesses brought together; the current culture and feedback from colleagues; values at the forefront of the Group's pandemic response; colleague engagement levels, results and feedback from the 2020 colleagues' insights survey; and embedding culture as a strategic priority.

TALENT, CAPABILITY, DIVERSITY AND SUCCESSION

October 2020 – during this deep-dive session, the Board reflected on discussions during its annual strategy meeting in July 2020 and focused on drivers shaping the Phoenix talent model (with diversity and inclusion at its centre); the Group's target talent model and what success looks like; identifying capability gaps and roles where changes might be required; developing existing talent; attracting the best external talent; reinforcing culture and values; and embedding diversity and inclusion. During this session, the Board also considered the Group's aspiration to become a leader on diversity and inclusion.

BRAND

October 2020 – the Board discussed the following during this deep-dive session: building a brand that is understood, trusted and relevant across all stakeholder groups; the building blocks of trust; understanding our stakeholders' 'personal agenda'; the brand we want to be; brand architecture and thought leadership.

DIGITAL CAPABILITY

October 2020 – the Board undertook a deep-dive session covering external digital trends and the approach of BigTech (including the macro impact of digital disruption) and opportunities for Phoenix today and in the future (including how digital intersects strategy; how digital transformation generates value for our business and customers).

REASSURE COMPLETION MODULES

See page 107 for details of the ReAssure completion modules undertaken by the Board between May and September 2020.

INTERNAL MODEL HARMONISATION

January 2020 – The Board received an educational update covering: the Internal Model Harmonisation Programme progress, key harmonisation decisions and crystallised programme risks; the Group Solvency II balance sheet; main components of the Group Solvency Capital; estimates of harmonisation capital impacts and an update on the Group's relationship with the PRA.

August 2020 – The Board received a further educational update on the Internal Model Harmonisation Programme, including: pre-application financial impacts; pre-application validation work; and PRA engagement.

SENIOR MANAGERS' AND CERTIFICATION REGIME

January 2020 – the Board received an education session covering the key elements of the Senior Managers and Certification Regime – covering the Certification Regime and Conduct Rules.

RISK COMMITTEE REPORT

MEMBERS
John Pollock (Chair)
Alastair Barbour
Wendy Mayall
Belinda Richards
Kory Sorenson

KEY RISK COMMITTEE ACTIVITIES IN 2020
- Considered regular updates on the Risk Management Framework
- Reviewed the operational resilience framework
- Monitored the Group's risk appetite
- Continued to review the Group's risk profile and principal risk policies including the impact of COVID-19 on the risk profile
- Reviewed the Group's Annual Own Risk and Solvency Assessment report

The role of the Risk Committee is to advise the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Group and the Group's capacity to manage and control risks within the agreed strategy. It advises the Board on all high-level risk matters.

The emergence of COVID-19 in early 2020 presented new emerging risks and heightened the financial and operational risk exposure for the business. The Committee continues to monitor and evaluate the management of these risks and risk profile exposure across the Group. Whilst there remain uncertainties in light of the pandemic, the organisation's ability to respond to COVID-19, successfully transform its business operating model and continue to make progress in achieving its strategic aims is a reflection on the strength of the Group's resilience and effectiveness of the internal control systems.

The performance of the Committee during 2020 was assessed as part of the annual Board effectiveness review which was an externally facilitated independent review. The conclusions demonstrate that the Committee continues to operate effectively, particularly in light of the COVID-19 environment and having held virtual meetings since the start of the pandemic.

Details of the Risk Management Framework ('RMF'), for which the Risk Committee has oversight, are provided in the Risk Management section on pages 79 to 89.

RISK COMMITTEE'S ROLE
- The Committee is comprised of five Independent Non-Executive Directors.
- A set of 'Operating Principles' are in place to define the responsibilities and accountabilities of the Risk Committees of Phoenix Group and its subsidiary company boards to mitigate overlap of focus or assurance activity.
- The Committee's meetings are attended by the Chair of the Audit Committee, Alastair Barbour, which allows the review of internal control effectiveness to be managed through collaborative working and oversight.
- The Chairman of the Phoenix Life and Standard Life Risk Committees and Model Governance Committee, John Lister, is a regular attendee to the Committee and provides members with a regular update on the risk matters pertinent to these key subsidiaries and the matters being dealt with at the Model Governance Committee (which is a Board Committee of the Group's Life Companies).
- The Chairman of the Phoenix Life and Standard Life Investment Committees, Nick Poyntz-Wright, also periodically attends the Committee meetings to provide key updates, which helps to facilitate discussions relating to investment risk.
- Other regular attendees to the Committee include the Group Chief Actuary, Chief Financial Officer, the Chief Executives of the subsidiary Life Company boards, the Group General Counsel and the Group Head of Internal Audit.

- The Committee met a total of nine times in 2020 including three out-of-cycle meetings.
- The Committee received briefing sessions to review the Recovery and Resolution Plan as well as a session on emerging risks and opportunities that could impact the Group post COVID-19.
- The Chief Risk Officer, Jonathan Pears, has full access to the Chair and the Committee and attends all meetings.
- The Committee receives frequent reporting from the Chief Risk Officer and the Group risk function on consolidated risk matters affecting the Group including risk profile assessments and emerging risks.

SIGNIFICANT MATTERS DISCUSSED IN 2020

Operational resilience/impact

- A key area of focus for the Committee during the year has been to enhance the existing operational resilience framework to strengthen the control environment due to the impact of COVID-19 and changes in the business operating model.

Financial risks of climate change

- The Committee reviewed and considered the approach to embed the management of climate-related risks and received briefing sessions on both climate change risk and Taskforce for Climate-related Financial Disclosures.

Brexit

- The Committee continued to monitor risks to the Group due to Brexit uncertainty and the impact of a 'no-deal' scenario.

Own Risk & Solvency Assessment ('ORSA')

- Consideration, and recommendation for Board approval, of the annual ORSA report for the Group and its regulated subsidiaries. ORSA refresh due to COVID-19 and change in risk profile.

Implement a single harmonised Risk Management Framework ('RMF')

- The Committee continued to review the progress of the implementation of the harmonised RMF approach across the Group.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2020

In addition to the significant matters discussed in 2020, the Committee also:

- Reviewed adherence to the Group Risk Management Framework and considered the appropriateness of the Group's overall risk appetite statements including the addition of a new sustainability risk appetite statement
- Received a number of updates and briefing sessions which covered issues such as operational risk in light of COVID-19; the consideration of emerging risks and opportunities that could impact the Group post COVID-19; and the Recovery and Resolution plan.
- Monitored progress against the 2020 Group risk function plan.
- Approved the Group market risk appetite limits.
- Considered the Group's capital risk appetite framework and the development of quantitative risk metrics
- Monitored compliance with the Group's principal risk policies, satisfying itself that action plans to address significant breaches of those policies were sufficient.
- Reviewed the Group's risk profile, monitoring it against the risk categories of Market, Insurance, Credit, Financial Soundness, Customer and Operational with particular attention to risk appetite, risk trends, risk concentrations, provisions, experience against budget and key performance indicators for risk as well as contingency planning.
- Reviewed the operation of the Risk Management Framework.
- Reviewed and approved the Operating Principles
- Considered risks, issues and matters that are escalated from the Phoenix Life Risk Committee.
- Received regular updates on cyber security.
- Reviewed reverse stress-testing analysis, completed and provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions.
- Informed the Remuneration Committee regarding the management of the Group's material risks to support their consideration of executives' Annual Incentive Plan rewards.

REVIEW OF SYSTEM OF INTERNAL CONTROLS

The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness in accordance with the Code. The Group's systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board (and its subsidiary company boards) monitor internal controls on a continual basis, in particular through the Audit and Risk Committees. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period covered by this report and up to the date of approval of the Annual Report and Accounts for 2020, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council. The assessment for 2020 was presented to the Board, following review by both Audit and Risk Committees, on 5 March 2021. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored by both the business and the Committees accordingly.

"The challenges and uncertainty during the year have rapidly transformed the external and internal risk landscape and required a broader view of resilience for the Group. This will continue to be a core focus for the Committee in addition to addressing key environmental, social and governance risks."

John Pollock
Chair of Risk Committee

AUDIT COMMITTEE REPORT

MEMBERS

Alastair Barbour (Chair)
Karen Green
John Pollock
Nicholas Shott

KEY AUDIT COMMITTEE ACTIVITIES IN 2020

- Reviewed the Company's 2019 Annual Report and 2020 Interim Financial Statements
- Considered and reviewed the actuarial processes, methodologies and assumptions
- Considered regular updates on the 2020 Internal Audit Plan; and
- Reviewed and monitored the effectiveness and independence of the Company's External Auditors.

AUDIT COMMITTEE ROLE AND FOCUS

The composition of the Audit Committee is detailed within the table shown above and is in accordance with the requirements of the UK Corporate Governance Code 2018 ('Code') and also with DTR 7.1.1AR. The Board has confirmed that all four members of the Audit Committee are considered as Independent Non-Executive Directors. In accordance with the Code, Alastair Barbour and Karen Green have recent and relevant financial experience. Also, in accordance with DTR 7.1.1AR, at least one member of the Committee has competence in accounting and/or auditing as well as the members as a whole having competence relevant to the insurance industry.

The Audit Committee met eight times during 2020. Its meetings are attended by the Chair of the Risk Committee (who is also a member of the Audit Committee),the Group Chief Financial Officer, the Group Financial Controller, the Group Head of Internal Audit, the external auditors and usually also by the Group Board Chair and the Group Chief Executive Officer. The Audit Committee holds private meetings at least annually with each of the Group Chief Financial Officer, the Group Head of Internal Audit and the external auditors. The Audit Committee acts independently of management, and engages closely with both the Group Risk Committee and the Life Company Audit Committee to ensure there is a good understanding of the work undertaken by each and enable efficient communication between the Committees.

AUDIT COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2020

In December 2019, Phoenix announced the proposed acquisition of ReAssure and as a result the Audit Committee reviewed, prior to completion, the financial and control related matters including working capital, financial and prospects report, synergies and the SII and IFRS pro formas. Following completion of the ReAssure acquisition, the Audit Committee has focused on accounting for the acquisition and analysis of the ReAssure acquisition balance sheet.

2020 has been a year of continued change and challenges for the Group with the ongoing transition activities that have followed the acquisition of both Standard Life, the acquisition of the ReAssure Group as well as consideration of the impact on the Group of COVID-19. In addition to these significant matters for the Audit Committee to consider there has also been the continued turbulence surrounding the political landscape with continued uncertainty around Brexit and other macroeconomic factors leading to continuing volatility in the financial markets. Against this backdrop, the main focus for the Audit Committee continues to be the oversight of the integrity of the Company's financial statements and the soundness and effectiveness of the Group's systems and controls, together with monitoring the effectiveness of both the Internal and External auditors.

This encompasses the following key functions:

- Receiving and reviewing the Annual Report and Accounts, the Solvency and Financial Condition Report and other financial results, statements and disclosures, and recommending their approval to the Board.
- Monitoring the overall integrity of the financial reporting by the Company and its subsidiaries and the effectiveness of the Group's internal controls.
- Provision of advice to the Board to enable the Board to report on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.
- Making recommendations to the Board on the appointment of the external auditors and their terms of engagement including approval of external auditor fees and non-audit services and for reviewing the performance, objectivity and independence of the external auditors.
- Considering and approving the remit of the Internal Audit function and reviewing its effectiveness.
- Oversight of activities of subsidiary audit committees through receipt and review of minutes, discussions between the Chairs of the Audit Committee and subsidiary audit committees, and the Audit Committee Chair's attendance at the Phoenix Life Audit Committee on an occasional basis, as well as his receipt of all papers going to the Phoenix Life Audit Committee. This oversight has been enhanced further through the attendance at the Audit Committee, on at least an annual basis, by the Chair of the Phoenix Life Audit Committee.

External reporting and controls

The Audit Committee during 2020 and to the date of this report carried out the following activities in relation to the Group's external reporting and the effectiveness of its internal controls:

- Reviewed the Company's 2020 Annual Report and Accounts, and the 2020 Interim Financial Statements, recommending their approval to the Board, as well as related disclosures and the financial reporting process, supported by reports from management and the external auditors. Reviewed the Group's annual Solvency II results and the Solvency and Financial Condition Report, recommending their approval to the Board.
- Reviewed a number of significant matters in relation to the Group's IFRS and Solvency II reporting as summarised in the table on pages 120 to 121. These matters were considered by the Audit Committee to be areas subject to the most significant levels of judgement or estimation, and identified with regard to the key audit matters assessed by the Group's external auditors as set out in their audit opinion on pages 164 to 176.
- Reviewed the financial forecasts and target setting prepared by management, supported by the sensitivity analysis on the key assumptions underpinning the forecasts, in support of the assumption that the Group will continue as a going concern, the Group's ongoing viability and in support of dividend payments.
- Reviewed the Line 1 risk and controls report from management, the Line 2 internal control assessment from Group Risk, and the annual Line 3 internal control environment opinion report (and the half-year update) from Internal Audit prior to its consideration by the Board and received reports regarding consequential actions;
- Considered the financial position and risks associated with the acquisition of ReAssure Group plc, supported by reports from management and the Group's External Auditors. Reviewed reports from Internal Audit on the control environment in the Group's outsource service providers and on the effectiveness of the internal audit work undertaken within the outsource service providers, noting that this was addressed in more detail at the Phoenix Life Audit Committee.
- Received dedicated briefings on matters including Finance and Actuarial Transition activity, Line 1 Risk Report Deep Dives on Actuarial Data and Unit Linked Fund Pricing Controls, Governance Matters relating to the Group's service companies and an overview of the European Business.
- Reviewed the final accounting adopted in the 2020 consolidated financial statements for the acquisition of the ReAssure businesses, including the valuation of tangible net assets, the valuation of intangibles and other acquisition related balances, supported by reports from management and the external auditor.
- Received regular updates from Company management, Internal Audit and External Audit as to the impacts of COVID-19 and the implementation of remote working practices on the Company's accounting, reporting and internal control activities. Assessed that those processes remained fit for purpose in supporting the Company's financial reporting and disclosure obligations throughout 2020.

> "The Committee has continued to deliver on its key responsibilities through taking into account COVID-19, the volatility surrounding the economic environment as well as the impact of the acquisition of the ReAssure Group. The Committee will remain focused on the issues surrounding the pandemic, ensuring that the Group continues to maintain a robust internal control environment."
>
> **Alastair Barbour**
> **Chair of Audit Committee**

EXTERNAL AUDIT

A key part of the role of the Audit Committee is the review and oversight of the work of the Group's external auditor. The Audit Committee reviewed various reports from the external auditor throughout 2020, including the 2020 Audit Plan, progress reports against that plan, and a report on their audit procedures on the 2020 annual IFRS and Solvency II results, and their interim review of the half year 2020 IFRS results.

The Audit Committee considered throughout 2020 the effectiveness, engagement and remuneration of the current external auditors. These reviews and presentations supported the recommendation of the re-appointment of Ernst & Young ('EY'), which was approved by the Board and subsequently approved by shareholders at the May 2020 AGM – see 'Assessment of the effectiveness of the external audit process' and 'Auditor's Appointment' on page 119.

The external auditor partner attended all Audit Committee meetings during 2020, presenting reports on the external audit process, 2020 year end and 2020 interim results, a hot-topics survey and assessments on methodology and actuarial assumptions. The external auditor provided details on benchmarking with regard to assumptions setting as well as challenging and providing guidance on reporting matters and disclosure requirements. There were instances where the external auditor challenged management's view on certain assumptions and reporting requirements which were clarified by the Committee.

The external auditor's independence was reviewed and monitored against the Group's External Auditor policy, including their provision of non-audit services and fees – see Auditor's Independence and External Auditor Policy on page 119. In addition, the Audit Committee reviewed the appointment of EY as auditors of the ReAssure entities following their acquisition during the period. This included an assessment of their independence and a review of services provided by EY during the 2019 and 2020 financial years.

The Audit Committee also considered matters pertaining to the mandatory rotation of the external audit firm – see Auditor's Appointment on page 119.

INTERNAL AUDIT

During 2020, the Audit Committee continued to receive regular updates from the Head of Internal Audit on various internal-audit-related matters. This included the annual update of the Group Internal Audit Charter and the Group Internal Audit Plan which were approved. The Committee received regular reports to monitor progress against the plan. The Audit Committee also reviewed the internal audit control environment opinion which included Internal Audit's view of the risk management framework across the Group.

INTERNAL CONTROL

The Committee is responsible for supporting the Board in ensuring a robust system of internal control and risk management systems is in place. In supporting this framework, the Committee receives regular reports on the status of the control environment and updates on the management of the risks and controls across the Group's Risk Management Framework. The Committee receives biannually control reports from Line 2 (Risk) through the internal control assessments from Group Risk as well as the annual Line 3 (Internal Audit) internal control environment opinion report. These reports provide assessments of the control environment metrics including: any risks that are reported to be outside of appetite; the action plan to bring within appetite; the status of internal audit opinions and any key issues identified and emerging trends and themes for the Committee to focus on going forward.

AUDIT COMMITTEE'S PERFORMANCE

At the December 2020 Board meeting, Consilium presented a report, following their appointment to undertake an external Board Effectiveness Review. As part of that report the Board Committees were reviewed and assessed, and with regard to the Audit Committee, Consilium concluded that the Committee operated extremely effectively.

GENERAL

The other areas that the Audit Committee covered throughout 2020 included the following:

- Whistleblowing arrangements within the Group as well as any whistleblowing activity where an employee raised concerns, in confidence, about any possible improprieties. An update to the Whistleblowing policy was approved which took into account the wider geographical presence of the Group and complied with the FCA and PRA's whistleblowing rules.
- Reviewed and approved updates to the Group Tax policy, Group Tax strategy, Group External Auditor policy and the Group Liquidity & Funding policy.

Alastair Barbour
Chair of Audit Committee

AUDITOR'S APPOINTMENT

During 2020, the Audit Committee continued to review the requirements for tendering of Audit Services for the Group and its subsidiary companies. It is the Audit Committee's current intention that the Group will tender its audit services prior to 2024 reflecting the mandatory rotation timing for EY as auditor of one of the Group's major life companies.

EY has been auditor to the Company since December 2018. EY has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 14 May 2021.

The current lead audit engagement partner is Stuart Wilson, who has held the role from the 2019 statutory audit.

ASSESSMENT OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The effectiveness of the external audit process is reviewed throughout the year by the Committee and included the following activities:

- Review of the detailed audit plan and consideration of its coverage and approach to identified risks;
- An assessment of the quality of interactions between the Audit team and the Committee, including the provision of technical and industry knowledge;
- Consideration of the level of insight provided by the audit findings in the key areas of judgment, including quality of benchmarking with regard to insignificant valuation assumptions and supporting analysis, and the ability of the audit team to demonstrate that they had applied professional scepticism in their dealings with management;
- A comprehensive assessment and review of the External Auditor where feedback was received from management, Life Company directors as well as members of the Audit Committee.
- Meeting privately with EY to discuss in depth Quality Assurance that is undertaken by EY with regard to its practices across the audit firm; and
- The Committee considered the findings of external evaluations of EY, notably the findings from the Financial Reporting Council's Audit Quality Inspection Report.

AUDITOR'S INDEPENDENCE AND EXTERNAL AUDITOR POLICY

The Company has an external auditor policy which requires the Company and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures are in respect of specific areas, such as secondments to management positions, or those which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external engagement partner.

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Audit Committee. Furthermore, the Group's external auditor policy prescribes a limit for fees associated with non-audit services of 70% of the average statutory audit fee for the three preceding years in line with statutory requirements.

In 2020, total fees of £14.5 million were paid to EY. Of this amount £11.7 million related to statutory audit fees of the parent and its subsidiaries, with a further £2.1 million incurred in relation to services provided pursuant to legal or regulatory requirements.

The remaining fees of £0.7 million are classified as non-audit services under the EU Directive and Regulations, and give rise to a non-audit to audit fee ratio of 9% for the 2020 year, and 17% based on a three year average audit fee. This lies well within the limits prescribed in the Group's policy.

Of the £0.7 million of non-audit fees, £0.4 million related to in-flight services being provided to ReAssure entities at the time of acquisition. This principally relates to implementation support provided for a non-financial front-office system, and was assessed as permissible under the Financial Reporting Council's Ethical Standard. The remaining balance of £0.3 million includes the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documents relating to the acquisition of ReAssure and debt issuances in the period. The engagement of the Group's independent External Auditor for the provision of such services is consistent with market practice in transactions of this nature.

In light of the above, the Audit Committee is satisfied that the non-audit services performed during 2020 have not impaired the independence of EY in its role as External Auditor. Further information on non-audit fees is provided in the Notes to the IFRS Consolidated Financial Statements on page 196.

SIGNIFICANT MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS

Significant matters in relation to the 2020 IFRS financial statements	How these issues were addressed
Review of the IFRS and Solvency II actuarial valuation process, to include the setting of actuarial assumptions and methodologies, and the robustness of actuarial data	Management presented papers to the Life Company Audit Committees detailing recommendations for the actuarial assumptions and methodologies to be used for the interim and year-end reporting periods with justification and benchmarking as appropriate. This included assumptions related to longevity, mortality, persistency, expenses and policyholder behaviour, as well as economic assumptions. These assumptions and methodologies were debated and challenged by the Life Company Audit Committees, prior to their approval. A summary of these papers was presented for oversight review by the Audit Committee, and the Life Company Audit Committees' conclusions were reported to the Audit Committee through minutes of its meeting and a discussion between the Chairmen of the committees. The Audit Committee discussed, and questioned management and EY on, the content of the summary papers and the Life Company Audit Committee's conclusions. Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed and approved by the Audit Committee. The Audit Committee received and considered detailed written and verbal reporting from the external auditors setting out their observations and conclusions in respect of the assumptions, methodologies and actuarial models including benchmarking analysis.
Valuation of complex and illiquid financial assets	Management presented papers setting out the basis of valuation of financial assets, including changes in methodology and assumptions, for the interim and year-end reporting periods to the Life Company Audit Committees. The assumptions, valuations and processes, particularly for financial assets determined by valuation techniques using significant non-observable inputs (Level 3), were debated and challenged by the Life Company Audit Committee prior to being approved. This included management's assessment of the impacts of economic volatility arising as a result of the global COVID-19 pandemic. The valuation information was then presented for oversight review by the Audit Committee who considered and further challenged the information prior to confirmation of the appropriateness of the basis of valuation.
Recoverability of intangible assets	Management presented papers detailing the results of annual impairment testing carried out in respect of goodwill balances and reviews for indicators of impairment performed in respect of finite life intangibles. The Audit Committee considered the results of the work performed and confirmed the appropriateness of the conclusions reached.
Acquisition accounting	The Audit Committee considered the impact of the acquisition of ReAssure on the Group consolidated IFRS financial statements. This included consideration of the adoption of Group accounting policies and methodologies by the acquired entities. Management presented papers detailing the basis of fair value adjustments made to the acquisition balance sheets including the valuation of tangible net assets, the valuation of intangibles including the Acquired Value of In-Force business and the gain on bargain purchase. The key methodologies and assumptions applied in determining such adjustments were reviewed and approved by the Audit Committee.

Significant matters in relation to the 2020 IFRS financial statements	How these issues were addressed
Provisions	Management presented papers detailing the basis of recognition and measurement of accounting provisions recognised by the Group. The Audit Committee considered the results of the analysis performed, the uncertainties surrounding measurement adopted and confirmed the appropriateness of the conclusions reached.
Operating profit	The Audit Committee reviewed the allocation of key items to operating profit to ensure the allocations were in line with the Group's operating profit framework and consistent with previous practice.
Assessment of whether the Annual Report and Accounts are fair, balanced and understandable	The Audit Committee considered and confirmed agreement with the analysis of the processes and conclusions in support of management's conclusions that the Annual Report and Accounts are fair, balanced and understandable. As part of the year-end procedures, the Audit Committee discussed with management and EY the review processes that operated over the production of the Annual report and Accounts.
Going concern and viability analysis	The Audit Committee reviewed information on the capital and liquidity position of the Group, together with a review of the associated risks and supporting stress and scenario testing, including the impacts of COVID-19. This was part of a comprehensive assessment undertaken prior to the Committee recommending to the Board that the Group financial statements should be prepared on a going concern basis and that the disclosures with regard to the long-term viability of the Group were sufficient and appropriate.

NOMINATION COMMITTEE REPORT

MEMBERS

Nicholas Lyons (Chair)
Alastair Barbour
Nicholas Shott
Kory Sorenson

KEY NOMINATION COMMITTEE ACTIVITIES IN 2020

- Group CFO appointment (Executive Director role)
- Board and senior executive succession planning
- Talent, capability, diversity and inclusion reviews
- Review of Directors' time commitment to Phoenix

The composition of the Nomination Committee is in accordance with the requirements of the Code that a majority of its members should be Independent Non-Executive Directors. The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors; succession planning for the Board and senior management, focused on the development of a diverse succession pipeline; and making recommendations to the Board on these matters.

The Nomination Committee met five times in 2020. Following the announcement in November 2019 of Andy Briggs as successor to Clive Bannister as Group Chief Executive Officer, the Nomination Committee continued its focus at the start of 2020 on the succession to Jim McConville as Group Chief Financial Officer in view of his impending retirement. This concluded with the appointment of Rakesh Thakrar to succeed Jim at the May 2020 Annual General Meeting. There was no non-executive recruitment in 2020. This was driven by the outcome of the November 2019 Board evaluation review which concluded that, due to the many recent Board changes, stability in non-executive membership on the Board in the near-term was desired. However, the Committee did review the Board succession plan in 2020 to ensure planning was in place for future changes matched to skills, experience and diversity requirements. The two new Board appointments in 2020, Hiroyuki Iioka and Chris Minter, were by nomination of strategic shareholders MS&AD and Swiss Re respectively in accordance with their shareholder rights following Phoenix's acquisition of ReAssure from Swiss Re, completed in July 2020.

The Nomination Committee has been very active in non-executive recruitment over the last few years. Recruitment since 2016 has included the role of Group Chair in 2018, with new Non-Executive Directors as follows:

- September 2016 – Wendy Mayall, John Pollock, Nicholas Shott
- July 2017 – Karen Green
- October 2017 – Belinda Richards
- October 2018 – Nicholas Lyons

There have, in addition, been the following appointments through strategic shareholder nomination under their shareholding rights:

- August 2018 – SLA nominees, Campbell Fleming and Barry O'Dwyer
- September 2019 – SLA nominee, Mike Tumilty
- July 2020 – MS&AD nominee, Hiroyuki Iioka; Swiss Re nominee, Chris Minter

The standard process used by the Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Group and, in the case of executive appointments, also considers internal candidates. Detailed assessments of shortlisted candidates are undertaken by the search consultancy, followed by interviews with Committee members and other

Directors and the sourcing of references before the Committee recommends the appointments to the Board.

The Board supports the Hampton-Alexander guidance for FTSE 350 companies that the Board should be comprised of at least 33% female directors. The Board complies with this guidance in respect of the Board composition excluding nominees from strategic shareholders, with a 40% female gender representation. This reduces to 31% when the strategic shareholder nominees are taken into account. Whilst the Board considers that it currently complies comfortably with the Hampton-Alexander guidance, the Board expects to exceed the guidance in 2022 even when taking account of nominees to the Board from strategic shareholders. The Board complies with the guidance of the Parker Review for FTSE 100 companies that there should be at least one ethnic minority director on the Board by 2021 (Rakesh Thakrar, the CFO).

The Board's policy on diversity is as follows:

- The Board promotes the enhancement of diversity, including gender, as a consideration when recruiting new Directors.
- The Board's overriding aim is to appoint the right Directors to the Board to drive forward the Group's strategy within a robustly compliant framework.
- The Board will undertake regular skills audits to ensure the Board's skills remain appropriate for its strategy and providing diversity where possible.

The Nomination Committee has been instrumental in increasing gender diversity on the Board and in 2020 took an active role in oversight and guidance of the executive diversity and inclusion process including a focus on the development of a diverse succession pipeline. Details of the diversity and inclusion initiatives for executives are contained in the Inspire Our People section on page 42 to 45 of this Annual Report including the gender balance of those in senior management.

A further activity for the Nomination Committee was to review the time spent by Directors in fulfilling their duties. This concluded that the time given by Directors in 2020 exceeded the level expected in their appointment terms, particularly given the time devoted by the Board to oversee the Group during a year dominated by COVID-19 and its impact on society.

To ensure that the Directors maintain up-to-date skills and knowledge of the Group, all Directors receive regular presentations on different aspects of the Group's business and on financial, legal and regulatory issues. All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board. In 2020, Chris Minter and Hiroyuki Iioka, the new non-executive directors nominated by strategic shareholders, Swiss Re and MS&AD respectively, undertook a comprehensive induction, including detailed strategic and operational briefings and information, before and following their appointments.

In accordance with the provisions of the Articles and the Code, all Directors will submit themselves for election or re-election at the Company's AGM on 14 May 2021.

BOARD EVALUATION REVIEW

In accordance with the Code, an evaluation of the performance of the Board and that of its Committees and individual Directors was undertaken in the latter part of 2020. The process was externally facilitated by Consilium Board Review, who have no other connection with Phoenix or individual directors. The process included the following:

- A review of the full year's Board and Committee packs and strategy papers.
- Questionnaires and interviews with all 13 directors and the Company Secretary; and interviews with four further executives.
- Observation of a Board meeting, two committee meetings and Board education sessions over 22–23 October 2020.

Consilium's report was presented to, and discussed at, the Board meeting on 2 December 2020. Its conclusion was very positive about the Board's performance, particularly in the light of the COVID-19 environment. Extracts from the report (agreed with the reviewer) are contained in the Chairman's Governance Introduction on page 93. Consilium provided the Board with some "matters to be mindful of" which the Board will address to ensure it continues to enhance its performance. In the case of the Nomination Committee, Consilium concluded that it was very effective and very well chaired, with a strong challenge on Diversity & Inclusion. The outputs from the review will be taken into account in the Board's succession planning.

"I am very pleased with the successful outcome from the Nomination Committee's work on the succession planning for the vital executive positions of Group Chief Executive Officer and Group Chief Financial Officer, resulting in the appointments of Andy Briggs to succeed Clive Bannister, and Rakesh Thakrar to succeed Jim McConville, both occurring during 2020."

Nicholas Lyons
Chairman

REMUNERATION COMMITTEE REPORT

MEMBERS
Kory Sorenson (Chair)
Karen Green
Belinda Richards
Nicholas Shott

KEY REMUNERATION COMMITTEE ACTIVITIES IN 2020
- Group CEO and CFO remuneration
- A remuneration framework for strategic executive hires
- Consideration of measurable, tangible and impactful targets including ESG
- Continuing alignment of remuneration to customer and shareholder outcomes
- Ongoing M&A and integration activity

Dear Shareholder,

On behalf of the Board and its Remuneration Committee ('Committee'), I am pleased to present the Directors' remuneration report ('DRR') for the year ended 31 December 2020.

SUMMARY OF THE YEAR

2020 was an extraordinary year. Despite the significant challenges presented by COVID-19, Phoenix continued to perform strongly: full year operating Cash Generation and Shareholder Value exceeded the top end of our target range; our high-quality portfolio of assets and diligent approach to risk management during the year have proved its resilience; and our shareholder solvency ratio remained comfortably within the 140% to 180% target range, at 164% at year end.

The acquisition of ReAssure Group plc completed in July has made Phoenix the UK's largest long-term savings and retirement business and we have delivered £22 million of annual cost synergies and £479 million of capital synergies in 2020. The Standard Life Assurance ('SLA') transition programme continues to progress well.

IMPACT OF COVID-19

The safety of our colleagues has been one of our top priorities throughout the pandemic. 99% of our colleagues were enabled to work from home within 10 days of lockdown. We rapidly introduced practical support for home working including paid emergency leave to colleagues with carers' responsibilities. Our employees have all received full pay throughout the period with none furloughed. The Group has not accessed any government support schemes. During this period, the Group's annual engagement survey highlighted an increase in pride and advocacy of Phoenix as a place of work as well as an increase in the overall engagement score.

We have continued to deliver strong customer service alongside supporting customers through a range of initiatives, including increased use of digital channels. Across our communities we have given £1 million in charitable donations with a further £1 million for colleague matching and volunteering in local communities.

SUSTAINABILITY

Phoenix has made significant progress on its sustainability journey in 2020. We announced the commitment for our operations to become net-zero carbon by 2025 and our investment portfolio to do so by 2050, and we signed the UN-supported Principles of Responsible Investment. Sustainability is at the heart of our purpose of helping people secure a life of possibilities. Reducing our environmental impact will be integral to delivering long-term value for all of our stakeholders.

BOARD CHANGES

The Board is very grateful to our former Group Chief Executive Officer ('CEO') and former Group Finance Director Clive Bannister and Jim McConville, for the enormous impact they both had on the business and the tremendous contributions they made during their tenures. The Board was delighted to welcome as their successors, Andy Briggs as Group CEO designate from January 2020, and as Group CEO from March 2020, and very proud to promote Rakesh Thakrar, an exceptional internal talent, as Group Chief Financial Officer ('CFO') from May 2020. Phoenix, its customers, colleagues and investors have truly benefited from the smooth succession of both roles during this transition period in 2020.

Full details of the remuneration arrangements for both our joining and departing Executive Directors were set out in last year's report and are repeated for reference on page 134 of this report.

REMUNERATION OUTCOMES FOR 2020

Despite the challenges of COVID-19, Phoenix's teams were able to keep our business performing and our strategy on track. The incentive outcomes reflect the achievements in terms of financial, non-financial, and strategic contributions. In the context of the experience of Phoenix's employees, customers, and shareholders during the year, the Committee is satisfied that it is appropriate to pay out the incentives according to the formulaic outcomes.

Based on its assessment of the corporate metrics the Committee determined that the Annual Incentive Plan ('AIP') outcome should be 81.7% of the maximum opportunity. With regard to the achievements under the Strategic Scorecard, the Committee determined outcomes should be 85.9% for Andy Briggs and 82.6% for Rakesh Thakrar. This results in total awards of 82.5% and 81.9% respectively of the maximum bonus opportunity in line with the overall assessment.

The 2018 Long Term Incentive Plan ('LTIP') award covering the years 2018–2020 will vest at 99.9% of the maximum opportunity for Rakesh Thakrar. The performance conditions for the buyout award granted to Andy Briggs in lieu of his forfeited 2018 LTIP from Aviva have not been met and this award will lapse in full.

For both the AIP and the 2018 LTIP, the relevant targets were adjusted to account for the impact of the ReAssure transaction on our metrics as assumed in the pricing of the transaction. This is the principle set in place in 2017 to adapt performance metrics to our dynamic M&A activity for events closing in a given year. In addition to adjusting the targets, we also adjust the target ranges on cash generation to maintain a stretch comparable to that originally set. Details of the adjustments to the targets are set out on pages 136 and 137.

Both Clive Bannister and Jim McConville were eligible for a 2020 AIP award for the portion of the year in which they remained employed by the Group. The Committee determined that they should receive the same outcome of 81.7% under the Corporate element, and 80.0% in relation to their achievements under the Strategic Scorecard metrics. This results in total awards for them both of 81.4% of the maximum bonus opportunity in line with the overall assessment which will be pro-rated to their respective end dates. This will be payable in March 2021 and subject to 50% deferral in line with the Directors' Remuneration Policy. Their in-flight LTIP awards were pro-rated to their respective end dates.

The resulting single total figure of remuneration for Andy Briggs was £1,706k, for Rakesh Thakrar £930k, for Clive Bannister £321k and for Jim McConville £403k. Full details are set out on page 130.

The Committee did not exercise any discretion in respect of remuneration outcomes during the year. We believe the numbers are an accurate reflection of the year's performance and the trajectory of the business.

IMPLEMENTATION OF PAY IN 2021

The Committee regularly reviews the performance measures of the incentive plans to ensure they remain aligned with our strategy. Following review of the AIP metrics in the light of our developing new business ambitions, the Committee determined that Workplace Net Flows should be replaced by Incremental Long-term Cash Generation after deduction of New Business Strain. This metric will provide a more complete assessment of management's achievement of our strategic aims by including in particular BPA performance in addition to new business from the other Open business units, including Workplace. It is robust, transparent and measurable. This metric will be weighted at 16% of the assessment and the Shareholder Value metric will be reweighted from 24% to 20%.

No changes are proposed to the LTIP metrics for 2021. The Committee is of the view that these remain well aligned with the Group's long-term strategy. As detailed on page 142, the underpin relating to the formulaic outturn of the LTIP has been revised to better reflect the extent to which the Group has operated within its stated Risk Appetite

A summary of the metrics is set out overleaf.

Annual incentive plan

2020	Cash Generation 24%	Shareholder Value 24%	Net Flows (Workplace) 12%	Customer Experience 20%	Strategic Scorecard 20%	Deferral 50% for a period of 3 years
2021	Cash Generation 24%	Shareholder Value 20%	Incremental Cash Generation (less new business strain) 16%	Customer Experience 20%	Strategic Scorecard 20%	Deferral 50% for a period of 3 years

Corporate Component – 80% of AIP metrics

Long term incentive plan

2020	Net Operating Cash Receipts 35%	Return on Shareholder value 25%	Persistency 20%	TSR 20%
2021	Net Operating Cash Receipts 35%	Return on Shareholder value 25%	Persistency 20%	TSR 20%

"In a year of transformative change for Phoenix and the challenges of Covid, the Committee attentively reviewed and monitored our remuneration policies to ensure alignment with our long-term strategy and social purpose and to drive the business forward sustainably for all of our stakeholders."

Kory Sorenson
Chair of Remuneration Committee

During the year, it became apparent that the increase in the LTIP potential for our Group CEO made it possible to have a level of vesting at 68.75% for threshold performance. This mechanical impact was not intentional and, in line with best practice, we have made the clarification with the support of Andy Briggs that the level of threshold vesting is capped at the lower of 25% of maximum vesting or 50% of salary. This has been implemented retrospectively to his 2020 LTIP award.

The Committee does not intend to make any adjustments to the performance targets of in-flight LTIP awards due to COVID-19. The awards will be assessed over the original performance periods and subject to the original performance targets, notwithstanding any amendments to targets as a result of M&A activity as per our policy. Details of adjustments to targets as a result of the ReAssure transaction are set out on page 136 of this report.

There is no salary increase proposed for Andy Briggs and a 2.3% salary increase proposed for Rakesh Thakrar, which is in line with the average increase awarded to the wider workforce.

LOOKING FORWARD

The Committee greatly values the high level of feedback and support from our shareholders. We are continuously refining our remuneration assessment to adapt to our dynamically growing business. We hope the in-policy modifications as outlined above and detailed in this DRR, will meet our shareholders' high standards of discipline and rigour and will be voted for favourably in the resolution proposed at the 2021 AGM.

Kory Sorenson
Remuneration Committee Chair
7 March 2021

DIRECTORS' REMUNERATION REPORT AT A GLANCE

ALIGNMENT TO STRATEGY

This table demonstrates how each of our performance measures for AIP and LTIP align with the Group's strategy.

Phoenix's Strategic KPIs

	2021 Corporate Metrics	Meet Changing Customer Needs	Create Value and Deliver Dependable Cash Generation	Manage our Capital Position	Inspire our People	Put Sustainability at the Heart of our Business
AIP	Cash Generation		✔	✔		
	Incremental Long Term Cash Generation less New Business Strain		✔	✔	✔	
	Shareholder Value		✔	✔		✔
	Customer Experience	✔	✔			✔
	Strategic Scorecard	✔	✔	✔		✔
LTIP	Net Operating Cash Receipts		✔	✔		
	Return on Shareholder Value		✔	✔		✔
	Persistency	✔	✔			
	TSR		✔			✔

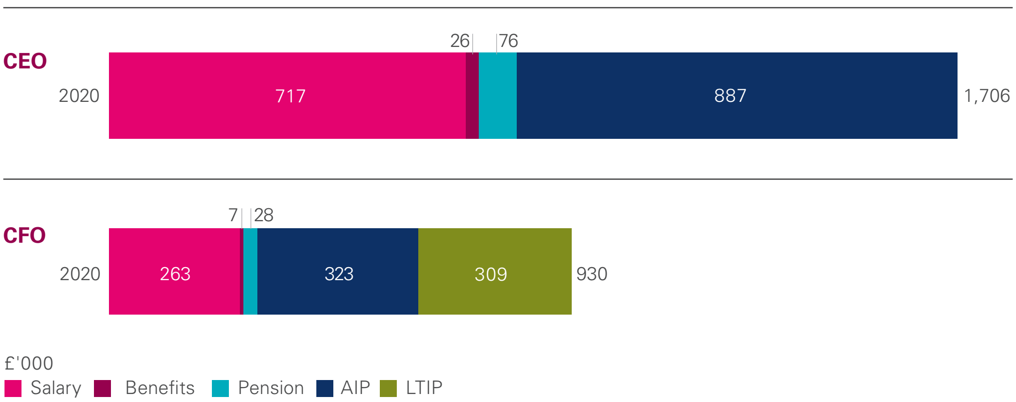
✔ AIP metrics engage employees across the Group to achieve common targets

As detailed in the strategy section of the 2020 Annual Report and Accounts under the 'Engage Colleagues' section, all employees with the exception of those who recently joined the Group from ReAssure, participate in a common incentive plan ensuring consistency of corporate goals and individual performance management. Employees from ReAssure continued with their existing bonus arrangements for the remainder of 2020 and will join the Group AIP described in this report from January 2021. Both variable pay plans for 2021 align to Phoenix's Strategic KPIs as shown below.

2020 SINGLE FIGURE

The outcomes under the AIP and LTIP resulted in a single figure outcome for Andy Briggs of £1,706k and for Rakesh Thakrar of £930k. The figure for Rakesh Thakrar reflects the period from when he was appointed to the Board of Phoenix Group Holdings plc apart from his 2018 LTIP award which is included in full per the regulations.

The single figure outcomes for the former Executive Directors of Clive Bannister and James McConville from 1 January to their termination dates were £321k and £403k respectively.



Read more → page 130

HOW WE PERFORMED IN 2020

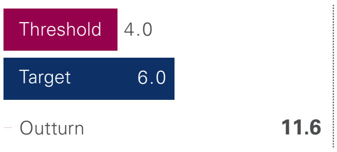
Group performance measures

Long Term Incentive Plan (‘LTIP’):

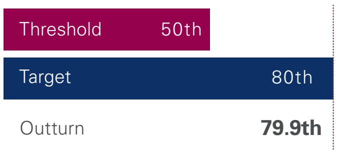
Below we show outturn against the measures which applied for the 2018 LTIP awards which are reflected in the Single Figure Table on page 130. Cumulative Cash Generation, Return on Adjusted Shareholder Solvency II Own Funds and Total Shareholder Return (‘TSR’) performance are shown over the three-year performance period (financial years 2018, 2019 and 2020). TSR is measured against the constituents of the FTSE 250 (excluding Investment Trusts), with median being the 50th percentile and upper quintile being the 80th percentile. Cash Generation continues to be one of our key corporate strategic objectives, while TSR provides a direct linkage to shareholder interests.

Cumulative Cash Generation (£m)

Return on adjusted shareholder solvency II Own Funds (£m)



Relative Total Shareholder Return (percentile)

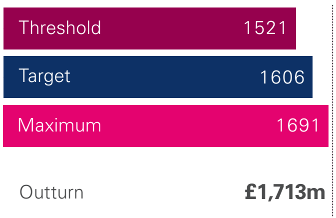


Group performance measures

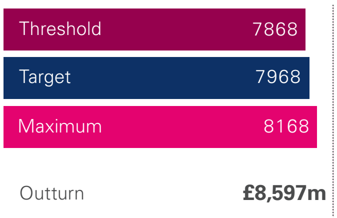
Annual Incentive Plan (‘AIP’):

Below we show the target ranges and outturn against the metrics within the 2020 AIP. More details of the 2020 AIP can be found on pages 131 to 133. AIP metrics that are stated Group KPIs are flagged below and evidences the direct link between Group strategy and remuneration outcomes. Those metrics that are not stated KPIs were felt by the Committee to be appropriate metrics which are reflective of the shareholder experience. Further information on how the Committee determined the AIP outcomes in the context of the wider stakeholder experience this year is set out on page 133.

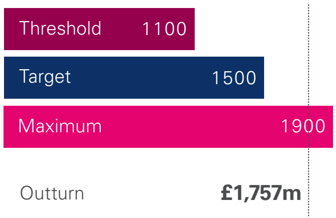
Cash Generation (£m)



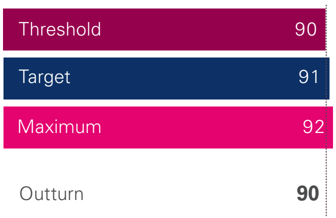
Shareholder Value (£m)



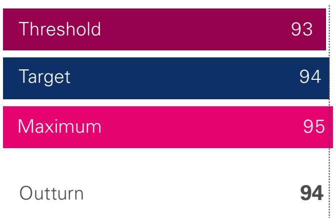
Workplace Net flows (£m)



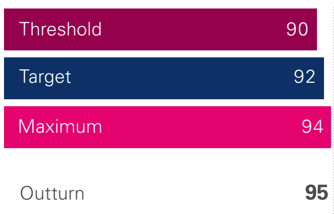
Customer Satisfaction (SLAL Telephony) (%)



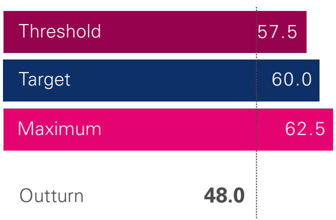
Customer Satisfaction (Phoenix Telephony) (%)



SLAL Digital (%)



Servicing Complaints (%)



SHAREHOLDING GUIDELINES ('SOGS')

A significant proportion of executive remuneration is delivered in shares which are released over a period of five years. In combination with our shareholding guidelines, this aligns Executive Directors with shareholders over the long-term. As at 31 December 2020 Andy Briggs and Rakesh Thakrar have not reached their shareholding requirements as both were newly appointed in 2020. The outgoing Executive Directors, Clive Bannister and James McConville had both exceeded their shareholding requirements and are now subject to post-cessation shareholding requirements.

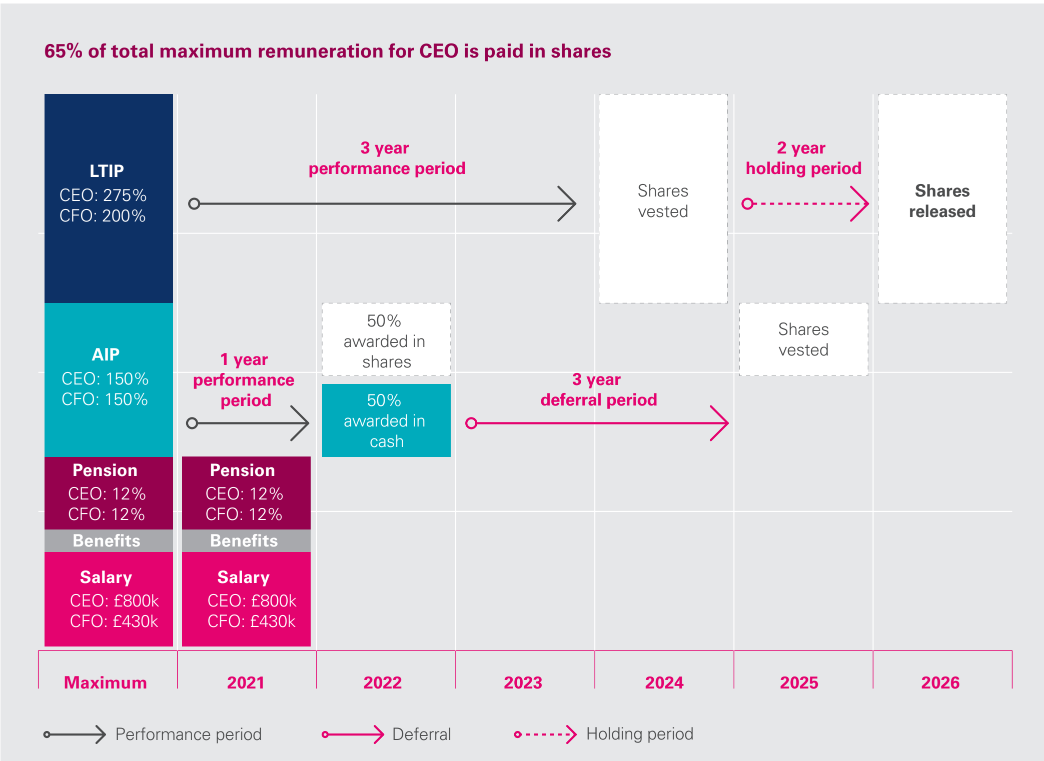
Further details on shareholding guidelines, including post-cessation requirements are included on page 140 of the Implementation Report (Section A) and in the Remuneration Policy attached as Appendix to this report on page 155.

Group Chief Executive Officer **Andy Briggs**	Shareholding guidelines	300%
	Shares held at 31 December 2020	231%
Group Chief Financial Officer **Rakesh Thakrar**	Shareholding guidelines	250%
	Shares held at 31 December 2020	155%
Group Chief Executive Officer **Clive Bannister**	Shareholding guidelines	200%
	Shares held at date of leaving	1164%
Group Finance Director **James McConville**	Shareholding guidelines	200%
	Shares held at date of leaving	472%

Shareholding Guidelines percentage shown for Andy Briggs and Rakesh Thakrar includes the value of shares held based on a share price of £7.014 (as at close of business on 31 December). The share price for Clive Bannister (£7.498) and James McConville (£6.1736) has been calculated based on the three-month average closing price prior to them leaving the Group. Shares included are those shares held directly and beneficially, any vested LTIP awards that have not been exercised and unvested DBSS options taking into account tax liabilities.

ALIGNMENT TO SHAREHOLDERS

Our Executive remuneration is designed to align with shareholder interests to deliver long-term sustainable value. The diagram below shows how a significant portion of Executive remuneration under the remuneration policy is delivered in shares and deferred for up to five years. Under the maximum scenario, 65% of the Group CEO's maximum remuneration is delivered in shares.



INTRODUCTION

This report contains the material required to be set out as the Directors' remuneration report ('Remuneration Report') for the purposes of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended) ('the DRR regulations').

DIRECTORS' REMUNERATION POLICY

The Remuneration Policy approved by the shareholders at the 2020 AGM is attached in full as Appendix to this report.

SECTION A

This section contains the annual report on remuneration which forms part of the Directors' remuneration report to be proposed for approval by the Company's shareholders at the Company's 2021 AGM on 14 May 2021

IMPLEMENTATION REPORT – AUDITED INFORMATION SINGLE FIGURE TABLE

	Salary/fees[5]		Benefits[6]		Pension[7]		Total Fixed Pay		Annual Incentive[8]		Long-term incentives		Total Variable Pay		Total	
£000	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**[9]	2019[10] (restated)	**2020**	2019	**2020**	2019[10] (restated)
Executive Directors																
Andy Briggs[1]	**717**	–	**26**	–	**76**	–	**819**	–	**887**	–	**0**[11]	–	**887**	–	**1,706**	–
Rakesh Thakrar[2]	**263**	–	**7**	–	**28**	–	**298**	–	**323**	–	**309**	–	**632**	–	**930**	–
Former Executive Directors																
Clive Bannister[3]	**133**	700	**3**	16	**23**	123	**159**	839	**162**	969	**–**	907	**162**	1,876	**321**	2,715
James McConville[4]	**166**	440	**6**	16	**29**	77	**201**	533	**202**	576	**–**	570	**202**	1,146	**403**	1,679

1 Andy Briggs joined the Board of Phoenix Group Holdings plc on 10 February 2020 as Group CEO Designate and became CEO on 10 March 2020.

2 Rakesh Thakrar joined the Board of Phoenix Group Holdings plc on 15 May 2020.

3 Clive Bannister resigned from the Board of Phoenix Group Holdings plc on 10 March 2020.

4 James McConville resigned from the Board of Phoenix Group plc on 15 May 2020.

5 The Executive Directors are entitled to adjust their salary/benefit combination under flexible benefits arrangements and the figures shown are before individual elections.

6 Benefits for Andy Briggs comprise car allowance, private medical insurance and legal fees relating to his appointment totalling £26,323. Benefits for Rakesh Thakrar, Clive Bannister and James McConville comprise car allowance and private medical totalling £6,607, £3,177 and £6,103 respectively.

7 Andy Briggs and Rakesh Thakrar are entitled to each receive a Company pension contribution of 12% which may be paid as a cash supplement, reduced for the effect of employers' National Insurance contributions. Andy Briggs received his whole contribution as a cash supplement (10.5%) and Rakesh Thakrar received a combination of cash supplement and contribution (10.6%). Clive Bannister and James McConville were entitled to each receive a Company pension contribution which was paid in cash so reduced for the effect of employers' National Insurance contributions to 17.6%. No Director participated in a defined benefit pension arrangement in the year and none have any prospective entitlement to a defined benefit pension arrangement.

8 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (ie 50% of the AIP award for 2020). In 2020 £443,653 of Andy Briggs's incentive payment is subject to three-year deferral delivered in shares, and £161,713 of Rakesh Thakrar's incentive payment is subject to a similar deferral. In 2020 and 2019, £80,898 and £387,660 respectively of Clive Bannister's incentive payment is subject to three-year deferral delivered in shares, and £101,216 and £230,472 of James McConville's incentive payment is subject to a similar deferral. Deferred amounts are subject to continued employment or good leaver status. The Remuneration Committee confirmed good leaver status for both Clive Bannister and James McConville.

9 In accordance with the requirements of the DRR regulations, the 2020 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2018 and which are due to vest on 21 March 2021 for Rakesh Thakrar. This vesting level is at 99.9% reflecting outcomes against the Cumulative cash generation, return on adjusted shareholder Solvency II own funds and TSR performance measures to 31 December 2020 (see page 133). This vesting outcome is then applied to the average share price between 1 October 2020 and 31 December 2020 (718.08p) to produce the estimated long-term incentives figures shown for 2020 in the above table. The assumptions will be trued up for actual share price at the day of vesting in the report for 2021. For Rakesh Thakrar, the disclosed LTIP figure of £308,666 comprises the disclosed LTIP figure of £254,854 for the value of the proportion of the original LTIP award, which ultimately vested, plus the value of dividend roll-up on those shares of £53,812. All values are calculated using the three month average share price to 31 December 2020 (718.08p). There was no increase in the value of Rakesh' vested LTIPs due to share price movement with the award based on a share price of £7.825. Clive Bannister and James McConville will receive shares in respect of the 2018 LTIP. The final number of shares and value at vesting will be disclosed in next year's DRR.

10 For 2017's LTIP awards which are reflected in the 2019 long-term incentives column above, the performance conditions were met as to 68.5% of maximum. The 2019 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 24 March 2020 (557.4p per share) multiplied by the number of shares vesting whereas the equivalent figure within the published 2019 Single Figure Table was an estimate which reflected the average share price between 1 October 2019 and 31 December 2019 (717.09p per share) and certain assumptions regarding the cumulative value of dividends on the number of shares vesting.

11 The disclosed LTIP figure of £0, relates to the 2018 Aviva LTIP buy-out award granted to Andy Briggs, which the Company has been advised by Aviva has a performance outturn of 0% over the performance period. This award was due to vest on 26 March 2021 at which date the award will lapse.

AIP OUTCOMES FOR 2020 – AUDITED INFORMATION

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level of 2020 AIP	Target performance level for 2020 AIP	Maximum performance level for 2020 AIP	Performance level attained for 2020 AIP	% of incentive potential based on Performance Measure	% achieved
Cash Generation	£1,521m	£1,606m	£1,691m	£1,713m	30.00%	30.00%
Shareholder Value	£7,868m	£7,968m	£8,168m	£8,597m	30.00%	30.00%
Workplace Net Flows	£1,100m	£1,500m	£1,900m	£1,757m	15.00%	12.32%
Customer experience						
Customer satisfaction (SLAL Telephony)[1]	90.0%	91.0%	92.0%	90.0%	6.25%	0.00%
Customer satisfaction (Phoenix Telephony)[2]	93.0%	94.0%	95.0%	94.0%	6.25%	3.13%
SLAL Digital[3]	90.0%	92.0%	94.0%	95.0%	6.25%	6.25%
Servicing complaint closure[4]	57.5%	60.0%	62.5%	48.0%	6.25%	0.00%
Total					100.00%	81.70%

1 Telephone customer feedback surveys are delivered to customers after key interactions using the Rant & Rave solution, either by SMS or email. The question asks "Using a scale of 5 (excellent) to 1 (very poor) reply to tell us how you would rate your call experience today?" and the score is calculated as the % of responses of 4 or 5. 90% of responses to the question asked scored a rating of 4 or above.

2 The rating is a customer satisfaction score based on the results of a satisfaction survey following telephony interaction managed by Ipsos MORI (an external research firm). Customers surveyed were asked to give a satisfaction rating of between 1 and 5 to a number of questions (with a rating of 4 or 5 regarded as satisfied). 94% of all questions asked scored a rating of 4 or above.

3 Digital customer satisfaction surveys are offered to customers on the Customer Dashboard, asking them to rate their experience after completing a key transaction. Digital Journeys measured include Payments, Retirement, Subsequent Withdrawal and Fund Switch. CSAT is measured as the % of responses rating their experience as 'good' or 'excellent'.

4 The rating is a percentage based upon the volume of servicing complaints (i.e. not product or advice) resolved within 3 days divided by the total number of servicing complaints resolved. This is a strategic requirement to provide better than mid-range performance within the complaints peer group.

To drive a continuous improvement of performance against the customer targets, the outturn of the 2019 performance was used as the on target anchor point for all customer metrics in the 2020 scheme. This approach effectively reset the companies target ensuring that the achievement above 'on-target' would require a tangible improvement in performance against the customer metrics. To reflect the increasing importance of the digital channel to customers, a new customer satisfaction measure for digital journeys was introduced. It should be also noted that no adjustment to the customer metrics and targets has been made as a result of the disruption caused by COVID-19.

Following the acquisition of ReAssure by the Group on 22 July 2020, the AIP targets for Cash Generation and Shareholder Value performance measures were amended to reflect the new organisation. The adjustments were made in line with the Remuneration Committee's established principles for target setting in the event of an acquisition and the Committee was satisfied that the revised targets were equally stretching as those originally set. The original targets for the Cash Generation performance measure were £866 million, £916 million and £966 million for threshold, target and maximum performance respectively. The target has been amended by £690 million and the threshold and maximum targets amended +/-£35 million each. The original targets for the Shareholder Value were £5,500 million, £5,600 million and £5,800 million for threshold target and maximum performance respectively. These were increased by £2,368 million at the threshold, target and maximum levels to reflect the estimated adjustment to Shareholder Value arising on completion of the ReAssure transaction.

As described in the Group Chairman's and Group CEO's reports (pages 12 to 17), 2020 has been a year of significant achievement for the Phoenix Group in which all strategic and financial targets were met, and cash, resilience and growth were delivered, which is reflected in the outcomes of the corporate measures above. Prior to confirming the outcomes for the 2020 AIP, the Committee reviewed in detail the extent to which the Group had operated within its stated risk appetite during the year and determined that no moderation of the 2020 formulaic outcome was necessary.

The element of AIP that was previously attributed to personal objectives was replaced in 2020 with a Strategic Scorecard. Metrics and targets relating to this scorecard were agreed by the Group Board and Remuneration Committee at the start of the year. Outcomes against these targets are shown below with the exception of those which are considered as commercially sensitive.

The Strategic Scorecard represents 20% of the overall incentive opportunity with the Corporate (financial and customer) measures representing 80%. The table below details the outcome against targets of the Strategic Scorecard together with respective weightings for the Group CEO and Group CFO .

Objective	CEO	CFO	Description	Base	Performance	Outcome
ESG– Committing to a sustainable future	10%	10%	Deliver for our customers	Qualitative assessment	Qualitative assessment	75% Delivered the Group's first Sustainability report and developed a clear future strategy that puts sustainability at the heart of the Group's business. The focus can now shift to further embedding the Group's ESG agenda and delivering against its targets.
			Foster responsible investment			
			Be a good corporate citizen			
			Governance and good business practice			
			Reduce environmental impact			
			Work ethically with our supply chain			
Our people	20%	10%	Engagement survey results	>= 65%	75%	95% Excellent progress in the year, especially employee engagement during a difficult period due to COVID-19. Allowing for contracted hires who will join the business in early 2021, promising progress has been made towards diversity targets with work still to do to meet the Group's ambitions in this regard.
			Gender pay gap	<= 22% by 2021 (positive trend 2020)	24.1% (not adjusted for contracted hires)	
			Percentage of females in top 100	>= 30% by 2021 (positive trend by 2020)	24% (including contracted hires)	
			Percentage of females named as green or amber successors	>= 40% (maintain)	44% (including contracted hires)	
Customer	15%	10%	Customer incidents targets met	Category A Target = 80% remediated within 2 months	94% remediated	87.5% Resolution of customer incidents has been managed at lead times well within target levels.
				Category B Target = 72.5% remediated within 9 months	84% remediated	
Risk and internal control	10%	20%	Maintain effective operation of the Risk management Framework and deliver risk framework harmonisation	Qualitative assessment based on baseline timescales	Met	50% The risk management framework has been assessed as operating effectively across the Group. Certain risk and control enhancement actions have been determined during the year with agreed timetables for completion.
			Operate within risk appetite	Qualitative assessment	Partially met	
Financial	15%	20%	PGH shareholder solvency ratio	Maintained within the 140 – 180% target range	164%	100% The Group's financial resilience has been demonstrated in volatile macro-economic conditions.
			Group operating expenses (excluding SunLife and ReAssure)	£553m	£525m	
			Investment grade rating	Maintained	Maintained	
			Fitch leverage	25/30%	28%	
Business development	10%	5%	BPA and Group Pension Scheme buy-in net flows	£2.2bn	£2.5bn	87.5% The Group has achieved strong performance against all incremental new business targets.
			NBC (Total Open, Europe and BPAs)	£160m	£362m	
			Long term cash generation– undiscounted (Open, Europe and BPA)	£646m	£766m	
ReAssure transaction and onboarding	10%	15%	Complete regulatory change in control process, secure funding and deliver the transaction	Transaction complete mid 2020	Transaction completed in July	100% The transaction was completed on time and excellent progress has been in integration activities and on delivery against publicly stated synergy targets.
			Delivery of 2020 cost and capital synergies	£177m	£501m	
			Complete Group Head Office integration	By end 2020	Completed	
			Complete Group Head Office integration	By end 2020	Completed	
Standard Life	10%	10%	Tracking to deliver 2019/21 cost synergies	£105m	£105m	75% The Group remains on target to meet or exceed publicly stated synergy targets.
			Tracking to deliver 2019/21 capital synergies	£720m (net of costs)	£720m (net of costs)	

In light of the above achievements during the year, the Committee determined it was appropriate to pay the following outcomes under the Strategic Scorecard element for the Group CEO and Group CFO:

	% outturn of maximum 20% opportunity
Andy Briggs	85.9%
Rakesh Thakrar	82.6%

The former Executive Directors were subject to the same Strategic Scorecard measures and the Committee determined it was appropriate to pay the following outcomes to them under this element:

	% outturn of maximum 20% opportunity
Clive Bannister	80%
James McConville	80%

The Committee was also satisfied that it was appropriate to pay out the incentives according to the formulaic outcomes in the context of the experience of Phoenix's stakeholders during the year, in particular employees and shareholders, as our employees all received full pay throughout the year with none furloughed, the Group did not access any government support schemes, and the dividend has been maintained.

The table below shows the actual outturn against the annual incentive maximum.

	Corporate		Strategic Scorecard		Total	Maximum	Total
	As a % of maximum Corporate element	As a % of salary	As a % of maximum scorecard element	As a % of salary	As a % of salary	As a % of salary	As a % of maximum opportunity
Andy Briggs	81.70	98.04	85.90	25.77	123.81	150.00	82.54
Rakesh Thakrar	81.70	98.04	82.60	24.78	122.82	150.00	81.88
Clive Bannister	81.70	98.04	80.00	24.00	122.04	150.00	81.36
James McConville	81.70	98.04	80.00	24.00	122.04	150.00	81.36

As described in the Remuneration Policy, 50% of 2020 AIP outcomes will be delivered as an award of deferred shares under the DBSS which will vest after a three-year deferral period subject to continued employment or good leaver status.

Whilst the performance measures for the AIP for 2021 have been disclosed (see Implementation of Remuneration Policy for 2021 on page 141), the actual performance targets for these measures are regarded as commercially sensitive at the current time and accordingly are not disclosed. However, as in previous years, the Group intends to disclose the performance targets for 2021's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2020's AIP. In 2020, Phoenix announced its new sustainability agenda and the metrics and targets for the ESG component of the 2021 strategic scorecard will align to this strategy.

LTIP OUTCOMES FOR 2018 AWARDS – AUDITED INFORMATION

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Cumulative cash generation (40%)	Target range between Cumulative cash generation of £2.500 billion and Cumulative cash generation of £2.735 billion.	£2,788bn	100.0%	40.0%
Return on Solvency II Shareholder Own Funds (35%)	Target range between 4% CAGR and 6% CAGR.	11.6	100.0%	35.0%
TSR (25%)	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	79.9th	99.9%	24.9%
Total				99.9%

The above targets were all measured over the period of three financial years 1 January 2018 to 31 December 2020.

Following the acquisition of ReAssure Group plc by the Group on 22 July 2020, the LTIP targets for Cumulative cash generation were amended to reflect the new organisation. The adjustments were made in line with the Committee's established principles for target setting in the event of an acquisition and the Committee was satisfied that the revised targets were equally stretching as those originally set. The previous targets for the Cumulative Cash Generation metric were

£1.824 billion at threshold (where 25% of this part of the award vests) and £2.024 billion at maximum (full vesting of this part of the award).

In addition to the above targets, the Committee confirmed that the underpin performance condition relating to Risk Management within the Group, customer satisfaction and, in exceptional cases, personal performance had been achieved in the performance period.

ANDY BRIGGS'S BUYOUT AWARD – AUDITED INFORMATION

Buyout awards were granted under the LTIP to Andy Briggs in 2019 (and the number of shares in relation to each award was finalised in 2020 following confirmation of the share prices to be used which were based on the average three-day closing middle market prices for both Aviva plc and Phoenix Group Holdings plc as at 31 December 2019). The buyout awards were made as a result of Andy Briggs forfeiting a proportion of his Aviva long-term incentive options awarded to him in March 2017 and May 2018 by Aviva following his leaving. The Aviva March 2017 LTIP vested on 27 March 2020 with a performance outturn of 50%. In line with the Directors' Remuneration Policy, Andy Brigg's buyout awards will have a further two-year holding period post vesting before the executive is able to exercise his options. The Company has been advised that the performance outturn for the Aviva 2018 LTIP has vested at 0% and these awards will lapse on the vesting date. Details on these awards can be found on page 138.

PAYMENTS FOR LOSS OF OFFICE – AUDITED INFORMATION

Payments made to Directors who departed during the year are disclosed below:

In the 2019 Directors' remuneration report we announced that Clive Bannister would step down as Group CEO following the publication of our 2019 full year results and after nine very successful years with the business, and that James McConville would step down from his position as Group Finance Director and leave the Group on 15 May 2020. Arrangements for the departure of both Executive Directors were in line with the Remuneration Policy.

Clive Bannister left the Group on 10 March 2020. He received pay in lieu of notice for the period starting on this date and ending on 7 November 2020, comprising salary, pension allowance and insurance benefits. This was paid in three instalments: £270,512 paid in June 2020, and £137,530 was paid in both September 2020 and November 2020. He received no compensation for loss of car allowance. As is standard practice, payment for unused holiday is added to final salary for all leavers in Phoenix Group, which resulted in a payment of £12,789. Clive's 2019 AIP, which was reported in the 2019 single figure table, was paid in the normal way and subject to 40% deferral in line with the policy in force at the time of his departure. Clive will be eligible for a 2020 AIP award for the portion of the year in which he remained employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with remuneration policy adopted in 2020. Clive's in-flight LTIP awards were time pro-rated to his end date. Clive is retaining his unvested DBSS awards and LTIP awards, subject to a holding period, as disclosed in the 2019 Directors´ remuneration report.

James McConville left the Group on 15 May 2020. His departure arrangements were in line with the Remuneration Policy. He received pay in lieu of notice for the period starting on this date and ending on 9 March 2021, comprising salary, pension allowance and insurance benefits. This was paid in three instalments: £211,250 was paid in May 2020 and £105,625 paid in November 2020. The final payment of £105,625 will be paid in March 2021. He received no compensation for loss of car allowance. As is standard practice, payment for unused holiday is added to final salary for all leavers in Phoenix Group, which resulted in a payment of £29,193. James's 2019 AIP was paid in the normal way and subject to 40% deferral in line with the policy in force at the time of his departure. He will be eligible for a 2020 AIP award for the portion of the year in which he remained employed by the Group, which will be payable in March 2021 and subject to 50% deferral in line with the remuneration policy adopted in 2020. James's in-flight LTIP awards were time pro-rated to his end date. James is retaining his unvested DBSS awards and LTIP awards, subject to a holding period, as disclosed in the 2019 Directors´ remuneration report.

PAYMENTS TO PAST DIRECTORS – AUDITED INFORMATION

Payments made to former Directors are disclosed below:

Clive Bannister, who resigned from the Board on 10 March 2020, will receive shares in respect of the 2018 LTIP. The final number of shares and value at vesting will be disclosed in the 2021 DRR.

James McConville, who resigned from the Board on 15 May 2020, will receive shares in respect of the 2018 LTIP. The final number of shares and value at vesting will be disclosed in the 2021 DRR.

NON-EXECUTIVE FEES – AUDITED INFORMATION

The emoluments of the Non-Executive Directors for 2020 based on the current disclosure requirements were as follows:

Name	**Directors' salaries/fees 2020 £000**	Directors' salaries/fees 2019 £000	**Benefits[1] 2020 £000**	Benefits[1] 2019 £000	**Total 2020 £000**	Total 2019 £000
Non-Executive Chairman						
Nicholas Lyons	**325**	325	**–**	7	**325**	332
Non-Executive Directors						
Alastair Barbour	**145**	145	**6**	15	**151**	160
Campbell Fleming[3]	**–**	–	**–**	–	**–**	–
Karen Green	**125**	117	**–**	5	**125**	122
Hiroyuki Iioka[2]	**–**	–	**–**	–	**–**	–
Wendy Mayall	**105**	105	**–**	1	**105**	106
Chris Minter[3]	**–**	–	**–**	–	**–**	–
John Pollock	**135**	134	**–**	3	**135**	137
Belinda Richards	**105**	105	**–**	5	**105**	110
Nicholas Shott	**105**	105	**1**	5	**106**	110
Kory Sorenson	**125**	125	**–**	–	**125**	125
Mike Tumilty[3]	**–**	–	**–**	–	**–**	–
Total	**1,170**	1,161	**7**	41	**1,177**	1,202

1 The amounts within the benefits columns reflect the fact that the reimbursement of expenses to Non-Executive Directors for travel and accommodation costs incurred in attending Phoenix Group Holdings plc Board and associated meetings represent a taxable benefit. This position has been clarified with HMRC and the amounts shown are for reimbursed travel and accommodation expenses (and the related tax liability which is settled by the Group).

2 Hiroyuki Iloka and Chris Minter joined the Board of Phoenix Group Holdings plc on 23 July 2020 and as nominated appointed directors of MS&AD and SwissRe respectively, waived all current and future emoluments with regard to their Directors' fees.

3 On 23 July 2020 Campbell Fleming resigned from the Board. Mike Tumilty has waived all current and future emoluments with regard to his Directors fees.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £4.537 million (2019: £4.120 million).

SHARE-BASED AWARDS – AUDITED INFORMATION

As at 31 December 2020, Directors' interests under long-term share-based arrangements were as follows:

LTIP

Name	Date of grant	Share price on grant	No. of shares as at 1 Jan 2020	No. of shares granted in 2020	No. of dividend shares accumulating at vesting[1]	No. of shares exercised[2]	No. of shares not vested[3]	No. of shares as at 31 Dec 2020	Vesting date[4]
Andy Briggs									
LTIP Buyout Award	7 Nov 2019	7.515p	174,443	–	–	–	(87,222)	87,221	27 Mar 2020
LTIP Buyout Award	7 Nov 2019	7.515p	101,158	–	–	–	–	101,158	26 Mar 2021
LTIP	13 Mar 2020	620.5p	–	354,529	–	–	–	354,529	13 Mar 2023
			275,601	**354,529**	**–**	**–**	**(87,222)**	**542,908**	
Rakesh Thakrar									
LTIP	24 Mar 2017	708.7p	22,720	–	4,612	(18,722)	(8,610)	–	24 Mar 2020
LTIP	21 Mar 2018	703.6p	35,527	–	–	–	–	35,527	21 Mar 2021
LTIP	11 Mar 2019	700.4p	39,259	–	–	–	–	39,259	11 Mar 2022
LTIP	13 Mar 2020	620.5p	–	135,365	–	–	–	135,365	13 Mar 2023
			97,506	**135,365**	**4,612**	**(18,722)**	**(8,610)**	**210,151**	
Clive Bannister									
LTIP	28 Sept 2015	632.8p	169,669	–	20,679	(190,348)	–	–	28 Sept 2018
LTIP	2 Jun 2016	670.9p	123,740	–	–	–	–	123,740	2 Jun 2019
LTIP	24 Mar 2017	708.7p	197,526	–	40,117	–	(74,858)	162,785	24 Mar 2020
LTIP	21 Mar 2018	703.6p	198,956	–	–	–	–	198,956	21 Mar 2021
LTIP	11 Mar 2019	700.4p	199,865	–	–	–	–	199,865	11 Mar 2022
			889,756	**–**	**60,796**	**(190,348)**	**(74,858)**	**685,346**	
James McConville									
LTIP	28 Sept 2015	632.8p	106,646	–	12,997	(119,643)	–	–	28 Sept 2018
LTIP	2 Jun 2016	670.9p	77,777	–	–	–	–	77,777	2 Jun 2019
LTIP	24 Mar 2017	708.7p	124,159	–	25,213	–	(47,053)	102,319	24 Mar 2020
LTIP	21 Mar 2018	703.6p	125,058	–	–	–	–	125,058	21 Mar 2021
LTIP	11 Mar 2019	700.4p	125,629	–	–	–	–	125,629	11 Mar 2022
			559,269	**–**	**38,210**	**(119,643)**	**(47,053)**	**430,783**	

1 In addition to the shares awarded under the LTIP presented above, participants receive an additional number of shares (based on the number of LTIP awards which actually vest) to reflect the dividends paid during the vesting period (and which for awards made from 2015, will include dividends paid during any applicable holding period).

2 Gains of Directors from share options exercised and vesting shares under the LTIP in 2020 were £2,426,388 (Clive Bannister's gain was £1,477,955 arising from an LTIP award exercised on 26 November 2020 at a share price of £7.764494; James McConville's gain was £829,623 arising from an LTIP award exercised on 20 October 2020 at a share price of £6.934157 and Rakesh Thakrar's gain was £118,810 arising from an LTIP award exercised on 27 May 2020 at a share price of £6.346 .

3 The 2017 LTIP award vested at 68.5% of maximum. The 2018 LTIP award vested at 99.9% of maximum.

4 All LTIP awards are now subject to a holding period so that any LTIP awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date.

The Committee reviewed the grant price of the 2020 LTIP awarded to Andy Briggs and Rakesh Thakrar and determined that the grant price of 620.5p was not below 20% of the grant price of 700.4p for the 2019 LTIP and was therefore satisfied that the award would not be subject to windfall gains and no adjustments were required to the awards.

During the year, certain shareholders provided feedback that the level of threshold vesting for the Group CEO's LTIP award (68.75% of salary) was considered excessive and that it should be no higher than 50% of salary. The Committee considered this feedback and decided that the level of threshold vesting for the Group CEO's LTIP award will therefore be capped at the lower of 25% of maximum vesting or 50% of salary. With the agreement of Andy Briggs, this has also been implemented retrospectively to his 2020 LTIP award.

LTIP TARGETS

The performance conditions for the 2018, 2019 and 2020 awards are set out below. These targets now reflect adjustments made following the acquisition of ReAssure in July 2020 and are described below. The adjustments were made in line with the Committee's established principles for target setting in the event of an acquisition.

Cash Generation/Net Operating Cash Receipts – targets under the 2018, 2019 and 2020 LTIP have been adjusted to reflect the cashflow assumptions made as part of the ReAssure transaction pricing and to appropriately reflect activity and circumstances arising in the period between announcement and completion. Additional cash released was anticipated to be £676 million in 2020 (£690 million less £14 million additional operating expenses), and is anticipated to be £811 million (£828 million less £17 million additional operating expenses) in 2021, and £549 million (£564 million less £15 million additional operating expenses) in 2022. The stretch target for each award has been adjusted in the same proportions as the impact ReAssure has on the base target. The resulting impact on the Cumulative Cash Generation and Net Operating Cash Receipts targets is as follows:

2018 LTIP: Cumulative Cash generation threshold increased from £1.824 billion to £2.500 billion with maximum target increased from £2.024 billion to £2.735 billion.

2019 LTIP: Cumulative Cash generation threshold increased from £2.097 billion to £3.584 billion with maximum target increased from £2.397 billion to £3.949 billion.

2020 LTIP: Net Operating Cash Receipts threshold increased from £2.375 billion to £4.411 billion with maximum target increased from £2.725 billion to £ 4.966 billion.

Return on Shareholder Value – consistent with the approach taken on previous transactions and in compliance with the Group's documented principles established for adjusting remuneration targets to reflect the impacts of acquisitions, there are no amendments to the target ranges for compound annual growth rates as a result of the acquisition of ReAssure. However, for each of the 2018, 2019 and 2020 Schemes, the opening Shareholder Value balance used to calculate the return is rebased by the value of equity issued (£2 billion) in consideration for the acquisition.

Persistency (2020 LTIP only) – no changes to this target have been made as Persistency relates to the Open business only and is therefore not impacted by the ReAssure transaction.

Performance measure	**2018 award** (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% Relative TSR)	**2019 award** (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% Relative TSR)	**2020 award** (35% Net Operating Cash Receipts, 25% Return on Shareholder Value, 20% Relative TSR, 20% Persistency)
Cumulative cash generation 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range of £2.500bn to £2.735bn.	Target range of £3.584bn to £3.949bn.	n/a
Net Operating Cash Receipts 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	n/a	Target range of £4.411bn to £4.966bn.
Return on Adjusted Shareholder Solvency II Own Funds 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Between 4% CAGR and 6% CAGR.	Between 4.5% CAGR and 6.5% CAGR.	n/a
Return on Shareholder Value 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	n/a	Between 2% CAGR and 4% CAGR.
Relative TSR 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company, measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2018.	Target range between median performance against the constituents of the FTSE 350 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.
Persistency 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	n/a	Target range between 8.0% and 6.5%[1]

1 This was incorrectly stated as 'Target range between 6.5% and 8.0%' in the 2019 DRR.

For the 2021 LTIP award, the underpin has been revised to better reflect the extent to which the Group has operated within its stated Risk Appetite.

DBSS – AUDITED INFORMATION

	Date of grant	Share price on grant	No. of shares granted as at 1 Jan 2020	No. of shares granted in 2020	No. of dividend shares accumulating at vesting[1]	No. of shares exercised[2]	No. of shares lapsed/ waived	No. of shares as at 31 Dec 2020	Vesting date
Andy Briggs									
DBSS	–	–	–	–	–	–	–	–	–
Rakesh Thakrar									
DBSS	24 Mar 2017	708.7p	**7,080**	–	**1,435**	**(8,515)**	–	–	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**6,863**	–	–	–	–	**6,863**	15 Mar 2021
DBSS	11 Mar 2019	700.4p	**11,740**	–	–	–	–	**11,740**	11 Mar 2022
DBSS	13 Mar 2020	620.5p	–	**15,262**	–	–	–	**15,262**	13 Mar 2023
			25,683	**15,262**	**1,435**	**(8,515)**	–	**33,865**	
Clive Bannister									
DBSS	24 Mar 2017	708.7p	**41,548**	–	**8,436**	**(49,984)**	–	–	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**51,277**	–	–	–	–	**51,277**	15 Mar 2021
DBSS	11 Mar 2019	700.4p	**51,265**	–	–	–	–	**51,265**	11 Mar 2022
DBSS	13 Mar 2020	620.5p	–	**62,471**	–	–	–	**62,471**	13 Mar 2023
			144,090	**62,471**	**8,436**	**(49,984)**	–	**165,013**	
James McConville									
DBSS	24 Mar 2017	708.7p	**26,116**	–	**5,301**	**(31,417)**	–	–	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**32,232**	–	–	–	–	**32,232**	15 Mar 2021
DBSS	11 Mar 2019	700.4p	**33,166**	–	–	–	–	**33,166**	11 Mar 2022
DBSS	13 Mar 2020	620.5p	–	**37,140**	–	–	–	**37,140**	13 Mar 2023
			91,514	**37,140**	**5,301**	**(31,417)**	–	**102,538**	

1 In addition to the shares awarded under the DBSS presented above, participants receive an additional number of shares (based on the number of DBSS awards which actually vest) to reflect the dividends paid during the vesting period.
2 Gains of Directors from share options exercised and vesting shares under the DBSS in 2020 were £532,034 (2019: £590,721). Clive Bannister's gain was £279,510 arising from an award exercised on 22 April 2020 at a share price of £5.592, James McConville's gain was £198,227 (2019: 240,217) arising from an award exercised on 9 July 2020 at a share price of £6.309559 and Rakesh Thakrar's gain was £54,297 arising from an award exercised on 27 May 2020 at a share price of £6.376609.

The DBSS is the share scheme used for the deferral of AIP. No performance conditions apply therefore, although awards are subject to continued employment or good leaver status.

SCHEME INTERESTS AWARDED IN THE YEAR – AUDITED INFORMATION

Recipient	Date of award	Type of award	Nature of the Award	How the award is calculated	Face value of award	Percentage vesting at threshold performance[1]	Vesting date	Performance Measures[1]
Andy Briggs	7 November 2019	LTIP BuyOut Award	Nil Cost Option	Buyout award	£1,310,944		27 March 2020	See footnote 2
	7 November 2019	LTIP BuyOut Award	Nil Cost Option	Buyout award	£760,206		26 March 2021	See footnote 2
	13 March 2020	LTIP	Nil Cost Option	275% of salary	£2,199,994	25%	13 March 2023	See page 137
Rakesh Thakrar	13 March 2020	LTIP	Nil Cost option	200% of salary	£839,994	25%	13 March 2023	See page 137
	13 March 2020	DBSS	Nil Cost Option	50% of AIP	£94,707	–	13 March 2023	None
Clive Bannister	13 March 2020	DBSS[1]	Nil cost option	50% of AIP	£387,657	–	13 March 2023	None
James McConville	13 March 2020	DBSS[1]	Nil cost option	50% of AIP	£230,468	–	13 March 2023	None

1 The DBSS awards have no threshold performance level.
2 The buyout awards are based on the following Aviva's related metrics: 2017 Award (vesting 27 March 2020), 50% TSR and 50% Return on Equity; 2018 Award (vesting 26 March 2021), 50% TSR and 50% Earnings per Share

The face value represents the maximum vesting of awards granted (but before any credit for dividends over the period to vesting) and is calculated using a share price of the average of the closing middle market prices of Phoenix shares for the three dealing days preceding the award date (2020 LTIP and DBSS award share price was 620.54p).

SHARESAVE – AUDITED INFORMATION

	As at 1 Jan 2020	Options exercised	Options lapsed	As at 31 Dec 2020	Exercise price	Exercisable from	Date of expiry
Andy Briggs	–	–	–	–	–	–	–
Rakesh Thakrar	**1,604**	–	–	**1,604**	£5.61	1 June 2022	1 Dec 2022
Clive Bannister	–	–	–	–	–	–	–
James McConville	**3,171**	**3,171**	–	–	£5.67431	1 Jun 2020	1 Dec 2020

Gains of Directors from share options exercised under Sharesave during 2020 were £4,838 (2019: £nil). Sharesave options are granted with an option price that is a 20% discount to the three-day average share price when invitations are made. This is permitted by HMRC regulations for such options.

Aggregate gains of Directors from share options exercised under all share plans in 2020 were £2,963,260 (2019: £590,721).

During the year ended 31 December 2020, the highest mid-market price of the Company's shares was 803.05 pence and the lowest mid-market price was 467.675 pence. At 31 December 2020, the Company's share price was 701.4 pence.

DIRECTORS' INTERESTS – AUDITED INFORMATION

The number of shares and share plan interests held by each Director and their connected persons are shown below:

	Share interests as at 1 January 2020 or date of appointment if later	Share interests as at 31 December 2020 or retirement if earlier	Total share plan interests as at 31 December 2020 – Subject to performance measures	Total share plan interests as at 31 December 2020 Not subject to performance measures	Total share plan interests as at 31 December 2020 – Vested but unexercised scheme interest
Andy Briggs	147,300	216,830	455,687	–	87,221
Rakesh Thakrar	60,324	75,131	210,151	35,469	–
Clive Bannister	854,810	854,810	398,821	165,013	286,525
James McConville	253,227	113,227	250,687	102,538	180,096
Alastair Barbour	9,716	9,716	–	–	–
Campbell Fleming	–	–	–	–	–
Karen Green	–	–	–	–	–
Hiroyuki Iioka[2]	–	–	–	–	–
Nicholas Lyons	20,000	65,990	–	–	–
Wendy Mayall	30,000	40,000	–	–	–
Chris Minter	–	–	–	–	–
John Pollock	14,666	14,666	–	–	–
Belinda Richards	–	–	–	–	–
Nicholas Shott	7,333	38,995	–	–	–
Kory Sorenson	20,704	26,600	–	–	–
Michael Tumilty	–	–	–	–	–

The Directors' share interests of the following Directors have increased between 31 December 2020 and 1 March 2021 (being one month prior to the date of the notice of the AGM) following purchases under the Group's Share Incentive Plan: Andy Briggs 56 shares and Rakesh Thakrar 56 shares. There were no other changes between these dates.

SHAREHOLDING REQUIREMENTS – AUDITED INFORMATION

As explained in the Remuneration Policy under the Shareholding Guidelines section, the Executive Directors are subject to shareholding requirements during their employment with the Group and for a period of two years post termination of employment.

Andy Briggs and Rakesh Thakrar are subject to a post-cessation shareholding of 100% of their in-employment shareholding for a period of two years post-employment. Clive Bannister and James McConville are subject to 100% of their in-employment shareholding for 12 months post-employment, and half of this level for the next 12 months.

The extent to which Executive Directors have achieved the requirements by 31 December 2020 (using the share price of 701.4 pence as at 31 December 2020) is summarised below. Unvested share awards no longer subject to performance conditions (discounted for tax liabilities) are included within the Guidelines. Clive Bannister and James McConville's shareholding ownership guidelines percentage has been based on the three-month average closing share price for the period up to their date of leaving the Group:

Position	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2020 or date of leaving (% of salary)
Andy Briggs	**300%**	231%
Rakesh Thakrar	**250%**	155%
Clive Bannister	**200%**	1,164%
James McConville	**200%**	472%

The post cessation shareholding requirement is monitored and enforced by direct liaison and confirmation with the Directors and their brokers, all trades and transfers are discussed and notified to the Group by the relevant Director.

The Executive Directors are required to sign a declaration that they have not and will not at any time during their employment with Phoenix, enter into any hedging contract in respect of their participation in the AIP, LTIP, Sharesave, SIP or any other incentive plan of the Company, or pledge awards in such plans as collateral, and additionally that they will neither enter into a hedging contract in respect of, nor pledge as collateral, any shares which are required to be held for the purposes of the Company's Shareholding requirements or any vested LTIP award shares subject to a LTIP holding period.

IMPLEMENTATION OF REMUNERATION POLICY IN 2021 – NON-AUDITABLE

A summary of the packages of the new Executive Directors is set out in the table below.

	Andy Briggs	Rakesh Thakrar
Salary	£800,000	£430,000, a 2.3% salary increase in line with the average increase awarded to the wider workforce.
Benefits	Benefits in line with the rest of the workforce including car allowance of £10,000 and Private Medical Insurance cover for self only. Executive Directors are also entitled to receive benefits in accordance with our Directors' Remuneration Policy which will be reported in the Single Figure Table each year.	
Pension	Contribution rate of 12% of base salary (reduced for the impact of employers' NIC if taken as a cash payment), aligned to our wider workforce.	
Annual bonus	150% of base salary at maximum. Details of the 2020 AIP are set out below.	
LTIP	275% of base salary.	200% of base salary.
	Details of the 2020 LTIP awards are set out below.	
Shareholding requirement	300% of base salary.	250% of base salary.
	Where any performance vested LTIP awards are subject to a holding period requirement, the relevant LTIP award shares (discounted for anticipated tax liabilities) will count towards the shareholding requirements. Unvested awards under the DBSS which are not subject to performance conditions are included in this assessment on a net of tax basis. Unvested awards under the LTIP are not included in this assessment.	
Post cessation shareholding requirement	Executive Directors are expected to retain the lower of their shareholding on termination or their full in-employment shareholding requirement for two years.	

Element of Remuneration Policy	Detail of Implementation of Policy for 2021
Annual Incentive Plan ('AIP')	As described in the Committee Chairman's covering letter on page 124, the Committee regularly reviews the performance measures of the incentive plans to ensure they remain aligned with our strategy. In light of our developing new business ambitions, the Committee determined that Workplace Net Flows should be replaced by Incremental Long-term Cash Generation after deduction of New Business Strain. This metric will provide a more complete assessment of management's achievement of our strategic aims by including in particular BPA performance in addition to new business from the other Open business units, including Workplace. It is robust, transparent and measurable. This metric will be weighted at 16% of the assessment and the Shareholder Value metric will be reweighted from 24% to 20%. As introduced in 2020, a Strategic Scorecard will reflect 20% of the Executive Directors' AIP. This will include a number of the strategic priorities for the year (but avoiding duplication with any outcomes under the Corporate element) and which can be clearly articulated and measured. This will include appropriate ESG metrics and for 2021 will align with the Phoenix sustainability strategy announced in 2020. The overall weightings between Corporate measures and Strategic Scorecard for AIP in 2021 are: • Corporate (financial and customer) performance measures – 80% (2020: 80%). • Strategic Scorecard (strategic company priorities 20% (2020: 20%). The weightings of the AIP performance measures for 2021 are summarised below:

Performance measure

Corporate measure	% of incentive potential
Cash Generation	(30% of Corporate component) 24%
Shareholder Value	(25% of Corporate component) 20%
Incremental Long Term Cash Generation less New Business Strain	(20% of Corporate component) 16%
Customer Experience	(25% of Corporate component) 20%
Strategic Scorecard	20%
Total	100%

	Outcomes from performance measures for 2021's AIP may be moderated by the Remuneration Committee in line with the approved Remuneration Policy. This will include a review by the Remuneration Committee on the extent to which the Group has operated within its stated risk appetite and that there are no other risk-related concerns that would necessitate moderation before any 2021 AIP outcomes are confirmed. The targets for the specific performance measures for AIP in 2021 are regarded as commercially sensitive by the Group but will be disclosed retrospectively in the Remuneration Report for 2021. 50% of AIP outcomes for 2021 will be delivered as an award of deferred shares under the DBSS which will vest after a three-year deferral period.
Deferred Bonus Share Scheme ('DBSS')	DBSS awards made in 2021 (in respect of 2020's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Group's 2020 annual results in accordance with the Remuneration Policy. The number of shares for DBSS awards will be calculated using the average share price for the three dealing days before the grant of the DBSS awards. The three-year deferral period will run to the three-year anniversary of the making of the DBSS awards. Dividend entitlements for the shares subject to DBSS awards will accrue over the three-year deferral period.
Long-Term Incentive Plan ('LTIP')	Awards under the LTIP will be made automatically on the fourth dealing day following the announcement of the Group's 2020 annual results under a procedure similar to that described above for awards under the DBSS. The number of shares for LTIP awards will be calculated using the average share price for the three dealing days before the grant of the LTIP awards. The initial three-year vesting period will run to the three-year anniversary of the making of the LTIP awards. At this time, the performance conditions will be determined. All annual LTIP awards made to Executive Directors are subject to a holding period so that any LTIP awards for which the performance conditions are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividend accrual for LTIP awards will continue until the end of the holding period.

Element of Remuneration Policy	Detail of Implementation of Policy for 2021
Long-Term Incentive Plan ('LTIP') continued	The performance measures for the 2021 LTIP have remained the same as for 2020 as these continue to reflect the long-term strategy for Phoenix. The performance measures are measured over a period of three financial years, commencing with financial year 2021. No changes are proposed to the measures and relative weightings for the 2021 LTIP as the Committee considers these remain well aligned with the Group's long-term strategy. Details of the 2021 measures, weightings and targets are shown below:

Performance measure and weighting	Threshold target	Full vesting target
Net Operating Cash Receipts (35%)	£4,330 million	£4,780 million
Return on Shareholder Value (return above risk free on Shareholder value (pre shareholder dividends) over a three-year period (25%)	2% in excess of the risk-free rate	4% in excess of the risk-free rate
Persistency (20%)	7.4%	6.1%
Relative TSR measure against the constituents of the FTSE 350 (excluding Investment Trusts), subject to an underpin regarding underlying financial performance (20%)	Median	Upper quintile

All 2021 LTIP awards are subject to an underpin relating to risk management within the Group, consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance. This underpin relating to the formulaic outturn of the LTIP has been revised to better reflect the extent to which the Group has operated within its stated Risk Appetite and ensures that management is not incentivised to accept risk outside of appetite in the pursuit of improved delivery against LTIP performance targets. It also offers a broader assessment than the previous focus on the management of the Group's debt position.

For the Group CEO, awards vesting under the LTIP will be subject to a cap on threshold performance of the lower of 50% of salary or 25% of maximum vesting.

The rules of the Company's LTIP reserves discretion for the Committee to adjust the outturn for any LTIP performance measures (from zero to any cap) should it consider that to be appropriate. The Committee may operate this discretion having regard to such factors as it considers relevant, including the performance of the Group, any individual or business.

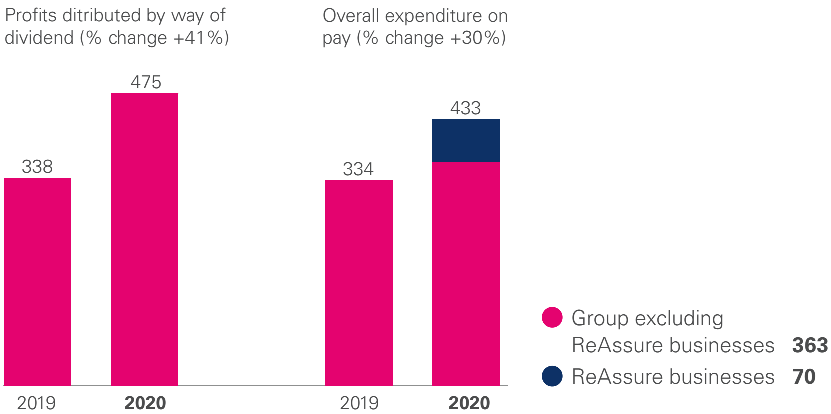
All-Employee Share Plans	Executive Directors have the opportunity to participate in HMRC tax advantaged Sharesave and Share Incentive Plans on the same basis as all other UK employees.
Chairman and Non-Executive Directors' fees	The fee levels as at 1 January 2021 are: £325,000 for the Chairman, £75,000 for the role of Non-Executive Director with additional fees of: (i) £20,000 payable for the role of SID; and/or (ii) £30,000 payable where an individual also chairs the Audit, Remuneration, Risk or Sustainability Committee; and £18,000 for the other members of those committees and the Model Governance Committee. We anticipate a review of the Chairman's fee in September 2021 on the third anniversary of his appointment. Additionally, in line with the Directors' Remuneration Policy, fee levels will be reviewed during the year to ensure that they remain competitive with other listed companies of equivalent size and complexity.

All incentive plans are subject to malus/clawback. See page 156 'Notes to the Remuneration Policy' for details.

DISTRIBUTION STATEMENT

The DRR Regulations require each quoted company to provide a comparison between profits distributed by way of dividend and overall expenditure on pay.

Relative Importance (£m)



Profit distributed by way of dividend has been taken as the dividend paid and proposed in respect of the relevant financial year. For 2020 this is the interim dividend paid (£234 million) and the recommended final dividend of 24.1 pence per share multiplied by the total share capital issued at the date of the Annual Report and Accounts as set out in note D1 in the notes to the consolidated financial statements. No share buy-backs were made in either year.

Overall expenditure on pay has been taken as employee costs as set out in note C3 'Administrative expenses' in the notes to the consolidated financial statements. Expenditure on pay has increased by 30% in the period, and by 9% on a like-for-like basis excluding the impact of the acquisition of the ReAssure businesses. The BAU increase of 9% was primarily driven by the cost of the crystallisation of the SunLife four-year long-term equity plan in the year, the increased cost arising from the implementation of the Unified People Proposition in July 2020 and from the impact from the crossover of the Executive Directors in the year.

VOTING OUTCOMES ON REMUNERATION MATTERS

The table below shows the votes cast to approve the Directors' remuneration report for the year ended 31 December 2019 and the Directors' Remuneration Policy at the 2020 AGM held on 14 May 2020.

	For		Against		Abstentions
	Number	% of votes cast	Number	% of votes cast	Number
To approve the Directors' remuneration report for the year ended 31 December 2019 (2020 AGM)	549,297,773	96.54	19,674,360	3.46	35,951
To approve the Directors' Remuneration Policy (2020 AGM)	563,455,466	99.31	3,899,742	0.69	744,467

DILUTION

The Company monitors the number of shares issued under the Group's employee share plans and their impact on dilution limits. The Company's practice is for all the executive share plans to use market purchase shares on exercise of any awards. For the Company's all-employee Sharesave scheme only, new shares are issued. Therefore the usage of shares compared to the 10% dilution limits (in any rolling ten-year period) set by the Investment Association in respect of all share plans as at 31 December 2020 is 0.60% and no shares count towards the dilution limit for executive plans only (5% in any rolling ten-year period).

CONSIDERATION OF EMPLOYEE PAY

During 2020 a new Unified People Proposition was implemented to move heritage Phoenix Group and heritage SLAL colleagues onto a common grading structure and benefit offering. This removed status enhancements from benefits such as holiday, private medical insurance, and pension contribution, so all colleagues, irrespective of hierarchy, benefit from a standard offering except where the external market drives differences such as car allowance, AIP and LTIP allocations. The remuneration packages for Andy Briggs and Rakesh Thakrar are therefore aligned to the rest of the workforce.

As explained in the Notes to the Remuneration Policy table:

- when determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate;
- the Group has one consistent reward policy for all levels of employees, and therefore the same reward principles guide reward decisions for all Group employees, including Executive Directors. The Group offers all employees a choice of share schemes (Sharesave and Share Incentive Plan) on the same basis as those offered to Executive Directors.

Despite the challenges of remote working during 2020, Karen Green, our designated Non-Executive Director for workforce engagement has continued her interaction with colleagues virtually. This included a full day session of the Colleague Advisory Forum where a number of topics relating to the workforce were discussed including the remuneration framework, fixed and variable pay, and core and voluntary benefits. Full details of Karen's activities during the year are given on page 104 under the Corporate Governance Report.

CEO PAY RATIO

In accordance with the DRR regulations we have provided in the table below the ratio of the CEO single total figure of remuneration for 2020 (as detailed on page 130) as a ratio of the equivalent single figure for the lower quartile, median and upper quartile employee (calculated on a full-time equivalent basis).

Phoenix Group has calculated the CEO pay ratio using Option A which is the most statistically robust of the methodologies permitted by the regulation. Under this option, the full-time equivalent pay and benefits of all Group employees including ReAssure staff, as at 31 December 2020 has been calculated using the same methodology as for the Group CEO and includes:

- The full-time equivalent annualised salary data.
- The full-time equivalent value of taxable benefits and pension contributions.
- Amounts due from incentive plans.

The Group reviewed the pay of the three identified employees at 25th percentile, 50th percentile (median) and 75th percentile and concluded that they were a fair representation of pay at the relevant quartiles of the UK employee base. Each individual was a full time employee during 2020 and received remuneration in line with Group wide remuneration policies. None received exceptional pay.

The table below sets out the salary and total single figure remuneration for the CEO and percentile employees included in the above ratios.

	Year	Methodology	CEO	25th percentile	50th percentile (median)	75th percentile
Salary[1]	2020	Option A	850,000	21,387	32,000	44,948
Total remuneration (single figure)	2020	Option A	2,027,000	25,970	37,440	64,678
2020 Ratio				78:1	54:1	31:1
2019 Ratio				94:1	62:1	40:1

1 For the salary and single figure total remuneration for the CEO, the single figure table totals for Clive Bannister and Andy Briggs have been combined.

This ratio has decreased from 2019 as a result of Andy Briggs's buyout award which vested at 0% in accordance with 2018 Aviva LTIP. We expect this ratio to change over forthcoming years as we integrate ReAssure colleagues into our pay principles and remuneration framework and reflecting the CEO's variable pay outcome each year.

Phoenix Group's principles for pay setting and progression in our wider workforce are the same as for our executives – total reward being sufficiently competitive to attract and retain high calibre individuals without over-paying and providing the opportunity for individual development and career progression. The pay ratios reflect how remuneration arrangements differ as accountability increases for more senior roles within the organisation and in particular the ratios reflect the weighting towards long-term value creation and alignment with shareholder interests for the Group CEO. We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. All employees have the opportunity for annual pay increases, annual performance payments and career progression and development opportunities.

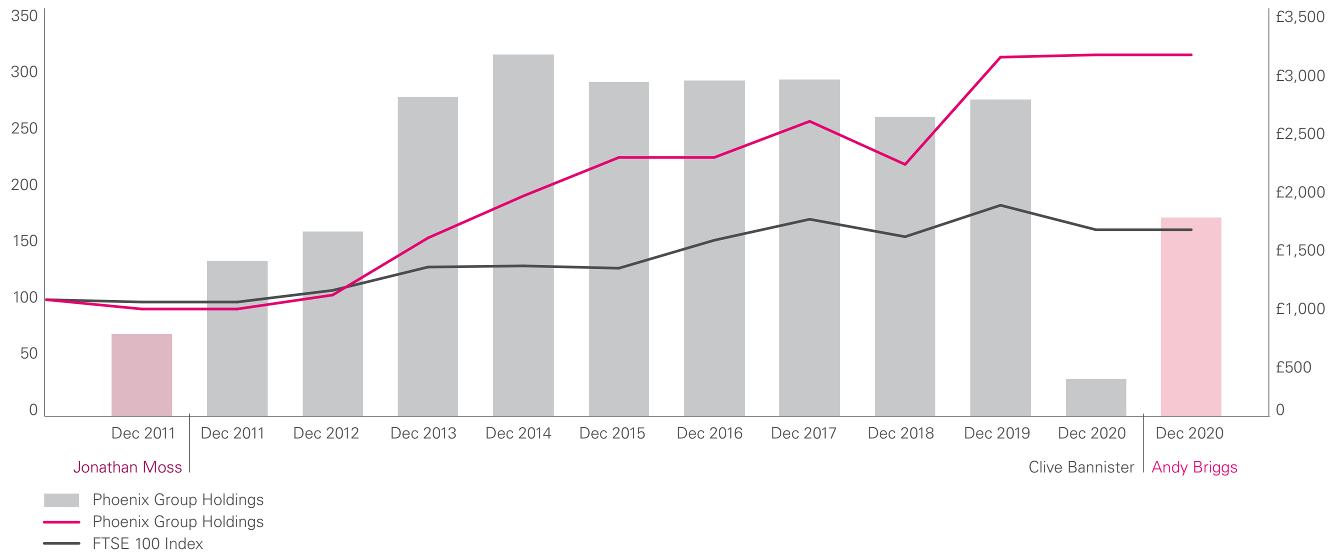
PERFORMANCE GRAPH AND TABLE

As described in the 2019 Directors remuneration report, the graph below has been updated to reflect Phoenix's entry to the FTSE 100 index in 2019 and shows the value to 31 December 2020 on a TSR basis, of £100 invested in Phoenix Group Holdings plc on 5 July 2010 compared with the value of £100 invested in the FTSE 100 Index (excluding Investment Trusts).

The FTSE 100 Index (excluding Investment Trusts) is considered to be an appropriate comparator for this purpose as it is a broad equity index of which the Company is a constituent.

TOTAL SHAREHOLDER RETURN

Value of a 100 unit investment made on 5 July 2010.



The DRR regulations also require that a performance graph is supported by a table summarising aspects of the Group CEO's remuneration for the period covered by the above graph (which will in due course be for a period of ten years).

GROUP CHIEF EXECUTIVE OFFICER REMUNERATION

		Single figure of total \remuneration (£000)	Annual variable element award rates against maximum opportunity ('AIP')	Long-term incentive vesting rates against maximum opportunity ('LTIP')
2020	Andy Briggs[1]	1,706	83%	0%[2]
2020	Clive Bannister[1,3]	321	81%	n/a[4]
2019	Clive Bannister	2,715[5]	92%	68.5%
2018	Clive Bannister	2,567	86%	49.5%
2017	Clive Bannister	2,888	86%	64%
2016	Clive Bannister	2,878	84%	55%
2015	Clive Bannister	2,867	82%	57%
2014	Clive Bannister	3,104	68%	57%[6]
2013	Clive Bannister	2,737	69%	67%[6]
2012	Clive Bannister	1,583	69%	n/a[7]
2011	Clive Bannister[8]	1,333	73%	n/a[7]
	Jonathan Moss[8,9]	704	n/a	n/a

1 Clive Bannister left the role of Group Chief Executive Officer on 10 March 2020 and left Phoenix Group on the same date. Andy Briggs was appointed to the Board on 10 February 2020 and remained as CEO-designate until 10 March 2020.
2 See footnote 11 on page 130 for details of Andy Briggs's LTIP vesting.
3 Clive Bannister's 2020 single figure of total remuneration does not include compensation for loss of office.
4 Clive Bannister's 2020 single figure of total remuneration does not include any value in respect of the 2018 LTIP. Final value on vesting will be disclosed in the 2021 DRR.
5 The single figure of total remuneration for 2019 has been restated and now reflects the actual price of shares on the day the 2017 LTIP vested (24 March 2020, 557.4p per share) rather than the three-month average share price to 31 December 2019 (717.09p per share) which was required to be used last year for the single figure of total remuneration.
6 The long-term incentive vesting rate for 2013 is shown at 67% and for 2014 is shown as 57%. In both years the Group CEO decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested.
7 Long-term incentive vesting rates against maximum opportunity values are not applicable for 2011 and 2012 due to no awards vesting in those financial years.
8 Jonathan Moss left the role of Group CEO on 7 February 2011 and left Phoenix Group on 29 March 2011. Clive Bannister joined Phoenix Group on 7 February 2011 and was appointed to the Board as a Director on 28 March 2011.
9 Jonathan Moss' 2011 single figure of total remuneration does not include compensation for loss of office.

PERCENTAGE CHANGE IN PAY OF THE GROUP CHIEF EXECUTIVE OFFICER 2019 TO 2020

In accordance with the DRR regulations, the table below provides a comparison of the percentage change in the prescribed pay elements of each individual who was a Director during the year (salary, taxable benefits and annual incentive outcomes) between financial years 2019 and 2020 and the equivalent percentage changes in the average of all staff employed by Phoenix Group. As no staff are employed directly by Phoenix Group Holdings plc, we have disclosed information for an appropriate group that is representative of the employees of Phoenix Group and its subsidiaries, in line with the regulatory guidance for this disclosure). This group was selected as being representative of the wider workforce using the same process as was used for this comparison in last year's Annual Report and Accounts. Note that this group excludes ReAssure employees who joined in July 2020.

Year-on-year % change	Salary	Taxable Benefits	Annual incentive
Executive Directors			
Andy Briggs	–	–	–
Clive Bannister[1]	0.0%	0.0%	(11.85)%
Rakesh Thakrar	–	–	–
James McConville[2]	0.0%	0.0%	(6.80)%
Non-Executive Directors			
Alastair Barbour	0.0%	(60.0)%	–
Campbell Fleming	0.0%	0.0%	–
Karen Green	6.8%	(100)%	–
Hiroyuki Iioka	–	–	–
Nicholas Lyons	0.0%	(100)%	
Wendy Mayall	0.0%	(100)%	–
Chris Minter	–	–	–
John Pollock	0.7%	(100)%	–
Belinda Richards	0.0%	(100)%	–
Nicholas Shott	0.0%	(80)%	–
Kory Sorenson	0.0%	(100)%	–
Mike Tumilty	0.0%	(100)%	–
Wider Employee Population	3.94%	7.4%	5.2%

1 Clive Bannister left the role of Group Chief Executive Officer on 10 March 2020 therefore the above information has been annualised as per his time in the role.
2 James McConville left the role of Group Chief Financial Officer on 15 May 2020 therefore the above information has been annualised as per his time in the role.

As Andy Briggs and Rakesh Thakrar are new Executive Directors in 2020, there is no year-on-year change included in the table above. With regard to the departing Executive Directors, Clive Bannister and James McConville, there has been no movement in the level of salary and benefits; there has been a decrease in the Annual Incentive figure as the outcome under the strategic scorecard was lower than the 2019 outcome under the previous element related to personal objectives.

Staff more generally have seen an increase due to a number of factors:

- As explained in the 2019 DRR, a common benefits offering was introduced to all legacy Phoenix and legacy Standard Life Assurance business colleagues which has resulted in a number of employees receiving a higher benefits package, and a number receiving a higher target bonus range under the AIP as we continue to integrate the two businesses.
- The distribution of performance ratings was more skewed towards the higher end in 2020, in part in recognition of the challenges people have endured throughout 2020 in light of COVID-19.
- The Standard Life Assurance businesses continued operating a performance related pay structure for 2020 and therefore annual salary increases varied, however the median salary increase across the overall Phoenix Group was 2.3%.

DIRECTORS' SERVICE CONTRACTS

The dates of contracts and letters of appointment and the respective notice periods for Directors are as follows:

Executive Directors' contracts

Name	Date of appointment	Date of contract	Notice period from either party (months)
Andy Briggs	1 January 2020	7 November 2019	12
Rakesh Thakrar	15 May 2020	6 March 2020	12
Clive Bannister	28 March 2011	7 February 2011	12
James McConville	28 June 2012	28 May 2012	12

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group. The Executive Directors are entitled to retain any external fees. During his employment with Phoenix in 2020, Clive Bannister did not receive any fees from external directorships. James McConville received £42,222 from Tesco Personal Finance plc during his employment with Phoenix in 2020. Rakesh Thakrar is a director of Mythili Megha Limited for which he receives no payment. Andy Briggs has no external directorships.

Non-Executive Directors' contracts

Name	Date of letter of appointment	Date of joining the Phoenix Group Holdings Plc Board[1]	Appointment end date	Unexpired term (months)
Alastair Barbour	1 November 2018	1 October 2013	15 May 2021	2
Karen Green	1 November 2018	1 July 2017	15 May 2021	2
Hiroyuki Iioka	23 July 2020	23 July 2020	23 July 2023	28
Nicholas Lyons	1 November 2018	31 October 2018	31 October 2021	7
Wendy Mayall	1 November 2018	1 September 2016	15 May 2021	2
Chris Minter	23 July 2020	23 July 2020	23 July 2023	28
John Pollock	1 November 2018	1 September 2016	15 May 2021	2
Nicholas Shott	1 November 2018	1 September 2016	15 May 2021	2
Belinda Richards	1 November 2018	1 October 2017	15 May 2021	2
Kory Sorenson	1 November 2018	1 July 2014	15 May 2021	2
Mike Tumilty	14 August 2019	1 September 2019	1 September 2022	17

1 All Directors above, other than Chris Minter, Hiroyuki Iioka and Mike Tumilty, joined the Phoenix Group Holdings plc Board on 15 October 2018 and services are considered to have commenced with effect from 13 December 2018.

The above tables have been included to comply with UKLA Listing Rule 9.8.8. In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one-month notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six-month notice period.

REMUNERATION COMMITTEE GOVERNANCE

The terms of reference of the Committee are available at www.thephoenixgroup.com. The main determinations of the Committee in 2020 in respect of the application of the Remuneration Policy are summarised in the Committee Chairman’s letter to shareholders at the start of the Remuneration Report.

The table below shows the independent Non-Executive Directors who served on the Committee during 2020 and their date of appointment:

Member	From	To
Kory Sorenson (Committee Chair from 11 May 2017)	3 July 2014	To date
Karen Green	1 July 2017	To date
Belinda Richards	2 July 2019	To date
Nicholas Shott	20 October 2016	To date

Under the Committee’s Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2020, eight Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 112.

Consistent with the requirements of Solvency II, the Committee is responsible for establishing, implementing, overseeing and reviewing the Company-wide remuneration policy in the context of business strategy and changing risk conditions. The Company-wide remuneration policy focuses on ensuring sound and effective risk management so as not to encourage risk-taking outside of the Company’s risk appetite. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

REMUNERATION COMMITTEE ACTIVITIES IN 2020

Committee activities	20 January	13 February	5 March	23 March	14 May	4 August	22 October	1 December
Consideration of risk, control and conduct matters		✔					✔	
Summary of engagement with shareholders and consideration of feedback	✔				✔		✔	✔
Executive Directors’ remuneration								
Review of fixed and variable remuneration	✔				✔			
Annual and long-term incentive performance measures, targets and outcomes	✔	✔	✔		✔	✔	✔	✔
Directors’ remuneration policy triennial review	✔							
Senior management remuneration								
Review remuneration proposals on recruitment and on termination of senior employees			✔	✔	✔	✔	✔	✔
Review of fixed and variable remuneration	✔				✔			
Annual and long-term incentive performance measures, targets and outcomes	✔	✔	✔			✔	✔	✔
All employee remuneration								
All employee discretionary incentive schemes including sales incentives	✔	✔	✔				✔	✔
Organisation reward design following acquisition			✔		✔	✔	✔	
Workforce engagement mechanisms, gender pay and pay ratio			✔					✔

ADVICE

During the year, the Committee received independent remuneration advice from its appointed adviser, PwC, who is a member of the Remuneration Consultants Group (the professional body for remuneration consultants) and adheres to its code of conduct. The Remuneration Committee was satisfied that the advice provided by PwC was objective and independent.

PwC also provided general consultancy services to management during the year including support on other Board and Risk matters and technical advice regarding share schemes. Separate teams within PwC provided unrelated services in respect of tax, assurance, risk consulting and transaction support during the year. The Committee is satisfied that these activities did not compromise the independence or objectivity of the advice it has received from PwC as remuneration committee advisers.

PwC's fees for work relating to the Committee for 2020 were £97,870. These were charged on the basis of the firm's standard terms of business for advice provided.

The Committee assesses the performance of its advisers regularly, the associated level of fees and reviews the quality of advice provided to ensure that it is independent of any support provided to management.

The Group CEO, Group HR Director, Executive Reward Director and Group Financial Controller and delegates, attend, by invitation, various Committee meetings during the year. No executive is ever permitted to participate in discussions or decisions regarding his or her own remuneration.

The Committee consults with the Chief Risk Officer (without management present) on a regular basis. The Chief Risk Officer is asked to detail the extent to which the Group has operated within its stated risk appetite during the year and to keep the Committee informed of any risk-related concerns that required the Committee to consider using its judgement to moderate incentive plan outcomes. The Chair of the Remuneration Committee also sits on the Risk Committee to enable additional linkage between risk matters and remuneration outcomes.

APPROVAL

This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by:

Kory Sorenson
Remuneration Committee Chair
Approved by the Board on 7 March 2021

APPENDIX – REMUNERATION POLICY

This appendix contains the Directors' remuneration policy approved by the company's shareholders at the Company's 2020 AGM on 15 May 2020.

GENERAL POLICY

The Remuneration Policy for Executive Directors is summarised in the table below along with the policy on the Chairman's and the Non-Executive Directors' fees.

Overall positioning*

The Company's overall positioning on remuneration for Executive Directors has been updated to reflect the provisions of the new UK Corporate Governance Code, best practice and feedback received from shareholders during consultation.

An appropriate balance is maintained between fixed and variable components of remuneration.

Our updated Remuneration Policy benchmarks the total target remuneration for the Executive Directors using appropriate market data sets.

* This section does not form part of the Remuneration Policy and is for information only.

HOW OUR POLICY ADDRESSES THE FOLLOWING FACTORS SET OUT IN THE UK CORPORATE GOVERNANCE CODE 2018

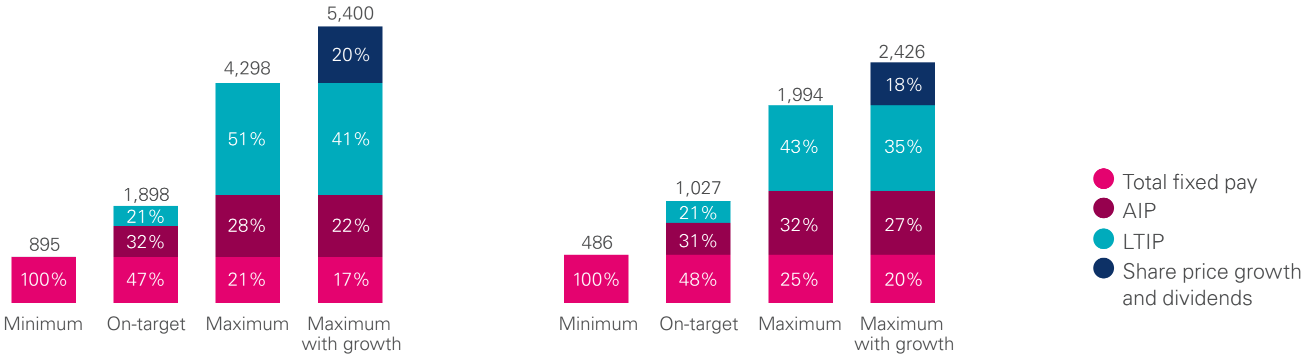
Factor	How this has been addressed
Clarity and simplicity	• The reward framework seeks to embed simplicity and transparency in the design and delivery of remuneration. We have proposed changes to our AIP performance measures (to replace the Personal Performance assessment with a Strategic Scorecard with transparent, measurable metrics, and to replace Management Actions with Net Flows (Workplace)) in order to simplify the AIP assessment process while enhancing alignment to Group strategy. • We have included additional diagrams and charts in this year's Remuneration Report to improve clarity for readers regarding the alignment of Executive remuneration with shareholders and our strategy.
Risk	• The Committee undertakes an annual review of risk before confirming the outcomes for the AIP to ensure that there are no risk-related concerns that require the moderation of AIP outcomes. • Malus and clawback operate in respect of the AIP and LTIPs (see page 156 for details on trigger events). • The Committee may apply discretion to override formulaic outcomes if they are considered inconsistent with the underlying performance of the Group.
Predictability	• The range of potential award levels to individual Executive Directors are set out in the scenario chart on page 151 which also demonstrates the impact of potential share price growth by 50% over the three-year performance period until LTIP vesting.
Proportionality	• A high percentage of rewards are delivered in the form of shares, meaning Executive Directors are strongly aligned with shareholders. We have increased the share ownership guidelines to 300% for the CEO and 250% for the CFO and introduced a post-employment shareholding requirement for our Executive Directors to ensure that they are aligned to the long-term performance of the Group.
	• Executive Directors are required to hold shares from LTIP awards for two years following vesting which provides focus on sustainable share price growth. We have also extended deferral levels under the AIP to further align to shareholders.
Alignment to culture	• We have engaged with our employees through our Colleague Insight Survey and Employee Networks (see further details on page 44 to develop our values and to improve our understanding of what is required to become a high-performing organisation. Our remuneration philosophy supports our purpose and core values.

POTENTIAL REWARDS UNDER VARIOUS SCENARIOS (£000)

The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy (see page 150).

CEO – Andy Briggs
£'000

CFO – Rakesh Thakrar
£'000



Minimum, on-target and maximum represent the scenario charts required under the Directors' Remuneration Policy – see the data assumptions below.

'Maximum with growth' is the maximum scenario, but with the LTIP element increased to reflect a 50% share price growth assumption over the three-year period until LTIP vesting. The element of the total representing the value from these assumptions on share price growth and dividends is shown separately.

Name	Base salary £000	Benefits £000	Pension £000	Total fixed £000
Andy Briggs	800	11	84	895
Rakesh Thakrar	430	11	44	486

Minimum	Consists of base salary, benefits and pension: • Base salary is the salary to be paid in 2020. • Benefits measured as benefits to be paid in 2020. • Pension measured as the full entitlement of approximately 10.5% of base salary receivable (after the reduction to payments made in cash for employers' National Insurance Contributions).
On-target	Based on what the Executive Director would receive if performance was on-target: • AIP: consists of the on-target annual incentive (75% of base salary). • LTIP: consists of the threshold level of vesting (50% of base salary for CEO and CFO). The threshold level of vesting for the CEO was previously 68.75% of salary but following shareholder feedback, a cap to the threshold vesting was introduced which the Remuneration Committee has agreed will be 50% of salary. In addition, the potential value of Sharesave and Share Incentive Plan ('SIP') participation is also recognised.
Maximum	Based on the maximum remuneration receivable: • AIP: consists of the maximum annual incentive (150% of base salary). • LTIP: assumes maximum vesting of awards and valued as on the date of grant (award of 200% of base salary for CFO and 275% of base salary for CEO. Sharesave and SIP valued on the same basis as in the on-target row.

REMUNERATION POLICY TABLE

Element and purpose in supporting strategic objectives

Base Salary

This is the core element of pay which supports the recruitment and retention of Executive Directors and reflects the individual's role and position within the Group as well as their capability and contribution.

Policy and operation

- Base salaries are reviewed each year against companies of similar size and complexity. Both salary levels and overall remuneration are set by reference to the median data of comparators which the Remuneration Committee considers to be suitable based on index, size and sector.
- The Remuneration Committee uses this data as a key reference point in considering the appropriate level of salary. Other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities, and the level of salary increases awarded to other employees of the Group are also considered.
- Base salary is paid monthly in cash.
- Changes to base salaries normally take effect from 1 April.

Maximum

- Salary levels are specific to the role and individual.
- Maximum salary will be the median level of salaries for CEO's in the FTSE31-100 (currently £800,000), provided that this figure may be increased in line with UK RPI inflation for the duration of this policy.
- However, when reviewing salaries for Executive Directors, the Remuneration Committee will also review the salaries, and salary increases, for senior management and employees in relevant countries to maintain consistency. Percentage increases for Executive Directors will not exceed that of the broader employee population, other than in specific circumstances identified by the Remuneration Committee (e.g. in response to a substantial change in responsibilities).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Benefits

To provide other benefits valued by recipient

Policy and operation

- The Group provides market competitive benefits in kind. Details of the benefits provided in each year will be set out in the Implementation Report. The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of the Group to do so, having regard to the particular circumstances and to market practice.
- Where appropriate, the Group will meet certain costs relating to Executive Director relocations and other exceptional expenses.

Maximum

- It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will normally operate within an annual limit of 10% of an Executive Director's base salary.
- The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers to be appropriate in all the circumstances.
- Relocation expenses are subject to a maximum limit of £50,000.

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Pension

To provide retirement benefits which keep Phoenix Group competitive within the marketplace and provide for the future of our employees

Policy and operation

- The Group provides a competitive employer sponsored defined contribution pension plan.
- All Executive Directors are eligible to participate in the Defined Pension Contribution plan available to all new joiners or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits. Any such cash payments are reduced for the effect of employers' National Insurance Contributions.
- Phoenix will honour the pensions obligations entered into under all previous policies in accordance with the terms of such obligations.

Maximum

- Pension contributions for Executive Directors are aligned with the wider workforce rate which is currently 12% of salary (reduced to 10.5% when taken as cash in lieu of contribution).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Annual Incentive Plan ('AIP') and Deferred Bonus Share Scheme ('DBSS')

To motivate employees and incentivise delivery of annual performance targets aligned to strategy

Policy and operation

- AIP levels and the appropriateness of measures are reviewed annually to ensure they continue to support the Group's strategy.
- AIP outcomes are paid in cash in one tranche (less the deferred share award).
- At least 50% of any annual AIP award is to be deferred into shares for a period of three years although the Remuneration Committee reserves discretion to alter the current practice of deferral (whether by altering the portion deferred, the period of deferral or whether amounts are deferred into cash or shares). Such alterations may be required to ensure compliance with regulatory guidelines for pay within the insurance sector, but will not otherwise reduce the current deferral level or the period of deferral.
- Deferral of AIP outcomes into shares is currently made under the DBSS.
- Awards under DBSS will be in the form of awards to receive shares for nil-cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice).
- DBSS awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The three-year period of deferral will run to the third anniversary of the award date.
- Dividend entitlements will accrue over the three-year deferral period and be delivered as additional vesting shares.
- Malus/clawback provisions apply to the AIP and to amounts deferred under DBSS as explained in the notes to this table.

Maximum

- The maximum annual incentive level for an Executive Director is 150% of base salary per annum.

Performance measures

- The performance measures applied to AIP will be set by the Remuneration Committee and may be financial or non-financial and corporate, divisional or individual and in such proportions as it considers appropriate. However, the weighting of financial performance measures will not be reduced below 60% of total AIP potential in any year for the duration of this policy.
- In respect of the financial and non-financial performance measures, attaining the threshold performance level produces a £nil annual incentive payment.
- On-target performance on all measures produces an outcome of 50% of maximum annual incentive opportunity. However, the Remuneration Committee reserves the right to adjust the threshold and target levels for future financial years in light of competitive practice.
- The AIP operates subject to three levels of moderation:
  i. The Committee seeks to set suitable ranges for each measure in the context both of the Group's own internal budgets and of external projections (whether through management guidance or consensus forecasts). Recognising that the business of the Group is to engage in corporate activity, the Remuneration Committee may adjust targets during the year to take account of such activity and ensure the targets continue to reflect performance as originally intended.
  ii. There is a specific adjustment factor of 80%–120% of the provisional outturn whereby the Remuneration Committee may adjust the provisional figure (but subject to any over-riding cap) to take account of its broad assessment of performance both against pre-set targets, risk considerations, and more generally, of the wider universe of stakeholders. With respect to financial performance measures, this assessment will include consideration of the quality of how particular outcomes were achieved.

The AIP remains a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the outturn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concern.

Element and purpose in supporting strategic objectives

Long-Term Incentive Plan ('LTIP')

To motivate and incentivise delivery of sustained performance over the long-term in line with our strategy and purpose, and to promote alignment with shareholders' interests, the Group operates the Phoenix Group Holdings plc LTIP.

Policy and operation

- Awards under the LTIP may be in any of the forms of awards to receive shares for nil-cost (as described for DBSS above).
- LTIP awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The vesting period will be at least three years and run until the third anniversary of the award date (unless a longer vesting period is introduced).
- A holding period will apply so that Executive Directors may not normally exercise vested LTIP awards until the fifth anniversary of the award date.
- Dividend entitlements will accrue until the end of the holding period in respect of performance vested shares and be delivered as additional vesting shares.
- Malus/clawback provisions apply on a basis consistent with the equivalent provisions in the AIP and DBSS and as explained in the notes to this table.
- The Group will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards.

Maximum

- The formal limit under the LTIP is 300% of base salary per annum (and 400% per annum in exceptional cases).
- The Remuneration Committee's practice is to make LTIP awards to Executive Directors each year over shares with a value (as at the award date) of up to 275% of the CEO's annual base salary and 200% of the CFO's annual base salary although discretion is reserved to make awards up to the maximum levels for the policy as stated above.

Performance measures

- The Remuneration Committee may set such performance measures for LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). The measures for the 2020 LTIP are as set out below:

Measure	Weighting
Net Operating Cash Receipts	35%
Return on Shareholder Value	25%
Total Shareholder Return	20%
Persistency	20%

- The Remuneration Committee retains discretion to adjust the weightings or substitute metrics but would expect to consult with its major shareholders regarding any material changes of the current performance measures applied for LTIP awards made to Executive Directors or the relative weightings between these performance measures.
- For every LTIP award, appropriate disclosures regarding the proposed performance conditions will be made in the annual Implementation Report.
- Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to make adjustments to the performance measures to ensure alignment with strategic objectives, provided that any adjusted performance measure is, in its opinion, neither materially more nor less difficult to satisfy than the original measure.
- For each part of an LTIP award subject to a specific performance condition, the threshold level of vesting will be no more than 25% of that part of the LTIP award.
- The performance period for LTIP awards will be at least three years, but the Remuneration Committee reserves discretion to lengthen the applicable performance periods for LTIP awards.

Element and purpose

All-employee share plans

To encourage share ownership by employees, thereby allowing them to participate in the long-term success of the Group and align their interests with those of the shareholders.

Policy and operation

- Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation.

Maximum

- Sharesave – the Remuneration Committee has the facility to allow individuals to save up to a maximum of £500 each month (or such other level as permitted by HMRC legislation) for a fixed period of three or five years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20% of the market price set at the launch of each scheme.
- Share Incentive Plan ('SIP') – the Remuneration Committee has the facility to allow individuals to have the opportunity to purchase, out of their pre-tax salary, shares in the Company and receive up to two matching shares for every purchased share. Maximum saving is £150 each month (or up to such level as permitted by the Company in line with HMRC legislation). SIP also has the facility to allow for reinvestment of dividends in further shares, or the award of additional free shares (up to the limits as permitted by HMRC legislation).

Performance measures

- Consistent with normal practice, such awards are not subject to performance conditions.

Element and purpose

Shareholding guidelines

To encourage share ownership by the Executive Directors over the long-term, including post cessation of employment, and ensure interests are aligned

Policy and operation

- Executive Directors are expected to retain all shares (net of tax) which vest under the DBSS and under the LTIP (or any other discretionary long-term incentive arrangement introduced in the future) until such time as they hold a minimum of 300%of base salary in shares for the CEO and 250% of base salary in shares for the CFO.
- Only beneficially owned shares, vested share awards, and unvested share awards not subject to performance conditions (discounted for anticipated tax liabilities), may be counted for the purposes of the guidelines. Share awards subject to performance conditions do not count prior to vesting.
- Once shareholding guidelines have been met, individuals are expected to retain these levels as a minimum. The Remuneration Committee will review shareholdings annually in the context of this policy.
- Post cessation of employment, Executive Directors are expected to retain the lower of their full level of employment shareholding guideline or their actual shareholding at termination for a period of two years.

Maximum

- N/A

Performance measures

- N/A

Element and purpose

Chairman and Non-Executive Director fees

Policy and operation

- The fees paid to the Chairman and the fees of the other Non-Executive Directors are set to be competitive with other listed companies of equivalent size and complexity.
- The Group does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum.
- Additional fees are paid to Non-Executive Directors who chair a Board committee, or sit on the board of a subsidiary company or on the Solvency II Model Governance Committee, and to the Senior Independent Director ('SID') and dedicated Workforce Director of Engagement. No separate Board committee membership fees are currently paid.
- Fees are paid monthly in cash.
- Fee levels for Non-Executive Directors are reviewed annually with any changes normally taking effect from 1 January. Additional reviews may take place in exceptional circumstances, such as following major corporate events, to ensure that fees remain appropriate in the context of the Group's size and complexity.

Maximum

- The aggregate fees of the Chairman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £2 million per annum in aggregate).
- The Company reserves the right to vary the structure of fees within this limit including, for example, introducing time-based fees or reflecting the establishment of new Board committees.

Performance measures

- N/A

NOTES TO THE REMUNERATION POLICY TABLE

1. Differences between the Policy on Remuneration for Directors and the Policy on Remuneration of other employees

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

The Group has (as required by Solvency II regulations) one consistent reward policy for all levels of employees and this policy is made available to all staff. Therefore, the same reward principles guide reward decisions for all Phoenix employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business as follows:

- AIP – all Phoenix employees participate in the AIP, although the quantum and balance of corporate to individual objectives varies by level. The most senior staff are subject to the regulatory requirements of Solvency II, and these individuals also receive part of their bonus in Company shares deferred for a period of three years. A different scorecard of AIP performance measures applies for Solvency II Identified staff in 'control functions' (risk, compliance, internal audit and actuarial) to exclude financial performance measures.
- LTIP – our most senior employees participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below the Board for future awards.
- All-employee share plans – the Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The Company offers two HMRC tax advantaged arrangements in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis (Sharesave and SIP), and equivalent arrangements in foreign jurisdictions (including on a tax advantaged basis permitted under local laws). In addition, selected individuals may receive ad-hoc share awards under the Chairman's Award programme in recognition of exceptional commercial outcomes and is contingent on continued employment.

2. Stating maximum amounts for the Remuneration Policy

The DRR regulations and related investor guidance encourages companies to disclose a cap within which each element of remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

3. Malus and clawback

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP, DBSS and LTIP. These provisions may be applied where the Remuneration Committee considers it appropriate to do so following:

- a review of the conduct, capability or performance of an individual;
- a review of the performance of the Company or a Group member;
- any material misstatement of the Company's or a Group member's financial results for any period;
- any material failure of Risk Management by an individual, a Group member or the Company; or
- any other circumstances that have a sufficiently significant impact on the reputation of the Company or Group.

4. Travel and hospitality

While the Remuneration Committee does not consider this to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and certain instances of business travel (including any related tax liabilities settled by the Company or another Group company) for Directors may technically be considered as benefits and so the Remuneration Committee expressly reserves the right to authorise such activities and reimbursement of associated expenses within its agreed policies.

5. Discretions reserved in operating incentive plans

The Remuneration Committee will operate the AIP, DBSS and LTIP according to their respective rules and the above Remuneration Policy table. The Remuneration Committee retains certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

- (as described in the Remuneration Policy table) the determination of performance measures and targets and resulting vesting and pay-out levels;
- (as described in the Remuneration Policy table) the ability to adjust performance measures and targets to reflect events and/or to ensure the performance measures and targets operate as originally intended;
- (as described in the Termination Policy) determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the treatment of the incentive plans on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing awards made under the incentive plans in certain circumstances (e.g. rights issues, corporate restructurings or special dividends). Any exercise of discretion will be disclosed in the Implementation Report for the year.
- consistent with the latest Corporate Governance Code, the Remuneration Committee may apply discretion to override formulaic outcomes if they are considered inconsistent with the underlying performance of the group (see pages 150 and 153).

RECRUITMENT REMUNERATION POLICY

The Group's recruitment remuneration policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy.

The AIP and LTIP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer. For such buy-out awards, Phoenix Group will not pay more than is, in the view of the Remuneration Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such awards on terms that are more bespoke than the existing annual and equity-based pay structures in Phoenix Group in order to secure a candidate. Details of any buy-out awards will be appropriately disclosed.

All such buy-out awards, whether under the AIP, LTIP or otherwise (for example, specific arrangements made under Listing Rule 9.4.2), will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Remuneration Committee will seek to make buy-out awards subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed), and where the Remuneration Committee considers it to be in the interests of shareholders and where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited. Exceptionally, where necessary, this may include a guaranteed or non pro-rated annual incentive in the year of joining.

- For the avoidance of doubt, such buy-out awards are not subject to a formal cap.
- A new Non-Executive Director would be recruited on the terms explained in the Remuneration Policy for such Directors.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Executive Director service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to 12 months of salary, certain fixed benefits and pension (which may be payable in instalments and subject to mitigation). By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. The Remuneration Committee also has discretion to mitigate further by paying on a phased basis with unpaid instalments ceasing after the initial period of six months if the Executive Director finds alternative employment. Contracts do not contain change of control provisions. The template contract is reviewed from time to time and may be amended provided it is not overall more generous than the terms described above.

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group.

Non-Executive Directors

The Non-Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for an initial fixed term of three years (which may be renewed), terminable by one month's notice from either side (six months in the case of the Chairman). Non-Executive Directors are not eligible to participate in incentive arrangements or receive pension provision or other benefits such as private medical insurance and life insurance.

Copies of Executive Director service contracts and Non-Executive Director letters of appointment are available for inspection at the Company's registered office.

TERMINATION POLICY SUMMARY

In practice, the facts surrounding any termination do not always fit neatly into defined categories for good or bad leavers. Therefore, it is appropriate for the Remuneration Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DBSS and LTIP plans. The potential treatments on termination under these plans are summarised below.

Incentives	Good Leaver[1]	Bad Leaver	Exceptional Events
	A participant is considered a Good Leaver if leaving through redundancy, serious ill health or death or otherwise at the discretion of the Remuneration Committee	A participant would typically be considered a Bad Leaver following a voluntary resignation or leaving for disciplinary reasons	For example change in control or winding-up of the Company
AIP	Pro-rated annual incentive. Pro-rating to reflect only the period worked. Performance metrics determined by the Remuneration Committee	No awards made	Either the AIP will continue for the year or there will be a pro-rated annual incentive. Performance metrics determined by the Remuneration Committee
DBSS	Deferred awards vest at the end of the original vesting period	Deferred awards normally lapse	Deferred awards vest
LTIP	Will receive a pro-rated award subject to the application of the performance conditions at the normal measurement date and, generally, any holding period will continue to apply Remuneration Committee discretion to disapply pro-rating or to accelerate vesting to the date of leaving (subject to pro-rating and performance conditions) and/or the release of any holding period	All awards will normally lapse	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event. Remuneration Committee discretion to disapply pro-rating

1 Where the reason for leaving is retirement, the individual will be required to provide confirmation of their continued retirement before any payments are released to them after the end of the vesting period.

The Group has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of termination of an Executive Director, the Group may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one month's notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six months' notice period.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

As explained in the notes to the Remuneration Policy table, the Remuneration Committee takes into account Group-wide pay and employment conditions. The Remuneration Committee reviews the average Group-wide base salary increase and annual incentive costs and is responsible for all discretionary and all-employee share arrangements.

Consistent with previous practice, the Remuneration Committee did not consult with employees in preparing the 2020 Remuneration Policy although has established further employee engagement in 2019 in accordance with the requirement under the Corporate Governance Code.

CONSIDERATION OF SHAREHOLDERS' VIEWS

Each year the Remuneration Committee takes into account the approval levels of remuneration-related matters at our AGM in determining that the current Remuneration Policy remains appropriate for the Company.

The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Committee consulted with shareholders prior to submission of this policy. The previous Remuneration Policy was submitted to shareholders at the 2019 AGM due to the completion of a Scheme of Arrangement in 2018 and this was approved with 99.7% support.

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2020 Phoenix Group Holdings plc is incorporated in the United Kingdom (registered no. 11606773) and has a Premium Listing on the London Stock Exchange.

SHAREHOLDERS

Dividends

Dividends for the year are as follows:

Ordinary shares	
Paid interim dividend	23.4p per share (2019: 23.4 per share)
Recommended final dividend	24.1p per share (2019: 23.4p per share)
Total ordinary dividend	47.5p per share (2019: 46.8p per share)

As a result of regulatory changes applicable to the Group under Solvency II, dividends declared in respect of the Company's ordinary shares must be capable of being cancelled and withheld or deferred at any time prior to payment. This is in order that the Company's ordinary shares can be counted towards Group capital. Accordingly, the final dividend will be declared on a conditional basis and the Directors reserve the right to cancel or defer the recommended dividend. The Directors do not expect to exercise this right other than where they believe that it may be necessary to do so as a result of legal or regulatory requirements.

SHARE CAPITAL

The issued share capital of the Company was increased by 277,717,200 during 2020 which related to:

- shares issued in relation to the acquisition of ReAssure Group plc; and
- shares issued under the Company's Sharesave Scheme.

At 31 December 2020, the issued ordinary share capital totalled 999,232,144. Subsequently, 2,029 ordinary shares have been issued in 2021 in connection with the Group's Sharesave Scheme to bring the total in issue to 999,234,173 at the date of this Directors' Report.

Full details of the issued and fully paid share capital as at 31 December 2020 and movements in share capital during the period are presented in note D1 to the IFRS consolidated financial statements.

At the Company's 2020 AGM, shareholders approved the renewal of the Company's authority to make purchases of up to 72,152,329 of its own shares and make payment for the redemption or purchase of its own shares in any manner permitted by the Companies Act 2006 including without limitation, out of capital, profits, share premium or the proceeds of a new issue of shares. The authority was not used and none of the Company's ordinary shares were purchased by the Company during 2020. The authority will expire at the 2021 AGM. A resolution to renew this authority shall be proposed in the 2021 AGM Notice of Meeting. The Company held no treasury shares during the year or up to the date of this Directors' Report.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association (the 'Company's Articles') which are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx

Where the Phoenix Group Employee Benefit Trust ('EBT') holds shares for unvested awards, the voting rights for these shares are exercisable by the trustees of the EBT at their discretion, taking into account the recommendations of the Group.

Restrictions on transfer of shares

Under the Company's Articles, the Directors may in certain circumstances refuse to register transfers of shares. Certain restrictions on the transfer of shares may be imposed from time to time by applicable laws and regulations (for example, insider trading laws), and pursuant to the Listing Rules of the Financial Conduct Authority ('FCA') and the Group's own share dealing rules whereby Directors and certain employees of the Group require individual authorisation to deal in the Company's ordinary shares.

Substantial shareholdings

Information provided to the Company pursuant to the FCA's Disclosure and Transparency Rules is published on a Regulatory Information Service and on the Company's website. As at 4 March 2021, the Company had been notified of the following significant holdings of voting rights in its shares.

	Number of voting rights in shares	Percentage of shares in issue
Standard Life Aberdeen plc	168,460,349	16.85%
MS&AD Insurance Group Holdings Inc.	144,877,304	14.49%
Swiss Re Finance Midco (Jersey) Limited	132,399,834	13.25%
BlackRock, Inc.	51,251,518	5.12%

Annual General Meeting ('AGM')
The AGM of the Company will be held at Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU on Friday 14 May 2021 at 10.00am.

A separate notice convening this meeting will be distributed to shareholders in due course and will include an explanation of the items of business to be considered at the meeting.

Investor Communications
The Company's Annual Report and Accounts, together with the Company's Interim Report and other public announcements and presentations, are designed to present a fair, balanced and understandable view of the Group's activities and prospects. These are available on the Company's website at www.thephoenixgroup.com, along with a wide range of relevant information for private and institutional investors, including the Company's financial calendar.

BOARD
Board of Directors
The membership of the Board of Directors during 2020 is given within the Corporate Governance Report on pages 98 to 100, which is incorporated by reference into this Directors' Report. During 2020 and up to the date of this Directors' Report, the following changes to the Board took place:

During the year, the following Board resignations and appointments occurred:
- Clive Bannister, Group Chief Executive resigned from the Board on 10 March 2020
- Jim McConville, Group Finance Director resigned from the Board on 15 May 2020
- Campbell Fleming, SLA Nominated Director resigned from the Board on 23 July 2020
- Andy Briggs, Group Chief Executive was appointed to the Board on 10 February 2020
- Rakesh Thakrar, Group Chief Financial Officer was appointed to the Board on 15 May 2020
- Hiro Iioka, MS&AD Nominated Director was appointed to the Board on 23 July 2020
- Christopher Minter, Swiss Re Nominated Director was appointed to the Board on 23 July 2020

Details of related party transactions which took place during the year with Directors of the Company and consolidated entities where Directors are deemed to have significant influence, are provided in the Directors' Remuneration Report on pages 124 to 158 and in note I4 to the IFRS consolidated financial statements.

The rules about the appointment and replacement of Directors are contained in the Company's Articles. These state that a Director may be appointed by an ordinary resolution of the shareholders or by a resolution of the Directors. If appointed by a resolution of the Directors, the Director concerned holds office only until the conclusion of the next AGM following the appointment.

In accordance with the UK Corporate Governance Code, Directors must stand for election/re-election annually.

The Board of Directors will be unanimously recommending that all of the Directors should be put forward for election/re-election at the forthcoming AGM to be held on 14 May 2021.

The Articles give details of the circumstances in which Directors will be treated as having automatically vacated their office and also state that the Company's shareholders may remove a Director from office by passing an ordinary resolution.

The powers of the Directors are determined by the Companies Act 2006, the provisions of the Company's Articles and by any valid directions given by shareholders by way of special resolution.

The Directors have been authorised to allot and issue securities and grant options over or otherwise dispose of shares under the Company's Articles.

Directors' remuneration and interests
A report on Directors' remuneration is presented within the Directors' Remuneration Report including details of their interests in shares and share options or any rights to subscribe for shares in the Company.

Directors' indemnities
The Company has entered into deeds of indemnity with each of its Directors whereby the Company has agreed to indemnify each Director against all losses incurred by them in the exercise, execution or discharge of their powers or duties as a Director of the Company, provided that the indemnity shall not apply when prohibited by any applicable law.

The deeds of indemnity remain in-force as at the date of signature of this Directors' Report.

Directors' conflicts of interest
The Board has established procedures for handling conflicts of interest in accordance with the Companies Act 2006 and the Company's Articles.

On an ongoing basis, Directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise.

Directors' and Officers' liability insurance
The Company maintains Directors' and Officers' liability insurance cover which is renewed annually.

GOVERNANCE

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also provides details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. The Strategic Report includes details of the Group's cash flow and solvency position, including sensitivities for both. Principal risks and their mitigation are detailed on pages 83 to 89. In addition, the IFRS consolidated financial statements include, amongst other things, notes on the Group's borrowings (note E5), management of its financial risk including market, credit and liquidity risk (note E6), its commitments and contingent liabilities (notes I5 and I6) and its capital management (note I3). The Strategic Report (on pages 1 to 91) sets out the business model and how the Group creates value for shareholders and policyholders.

The Board has followed the requirements of the UK Financial Reporting Council's ('FRC') 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)' and taken into account the requirements of the recent pronouncement from the FRC's Financial Reporting Lab, 'COVID-19 – Going concern, risk and viability', when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are a going concern, the Board has considered financial projections over the period to 31 March 2022, which demonstrate the ability of the Group to withstand market shocks in a range of scenarios, under severe but plausible scenarios. Further details of these stress scenarios are included in the viability statement on pages 90 to 91.

In assessing the appropriateness of the going concern basis, the Board considered base case liquidity and solvency projections that incorporated an estimated view of the potential economic downturn that is anticipated to be experienced due to the impacts of COVID-19. In addition, a more onerous economic downturn was also modelled. These scenarios have been validated against latest available external benchmarks, including International Monetary Fund and Bank of England forecasts. The projections demonstrate that appropriate levels of capital would remain in the Life Companies under both the base and more onerous economic downturn scenarios, thus supporting cash generation in the going concern period, and note the Group's access to additional funding through it's undrawn £1.25 billion Revolving Credit Facility.

The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence over the period to 31 March 2022, the period covered by the going concern assessment. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the IFRS financial statements for the year ended 31 December 2020.

Viability statement

The Viability Statement, as required by the UK Corporate Governance Code, has been undertaken for a period of five years to align to the Group's business planning and is contained in the Risk Management section on pages 90 to 91.

Corporate governance statement

The disclosures required by section 7.2 of the FCA's Disclosure Guidance and Transparency Rules can be found in the Corporate Governance Report on pages 94 to 123 which is incorporated by reference into this Directors' Report and comprises the Company's Corporate Governance Statement.

The UK Corporate Governance Code (the 'Code') applies to the Company and full details on the Company's compliance with the Code are included in the Corporate Governance Report on pages 94 to 123. The Code is available on the website of the Financial Reporting Council – www.frc.org.uk.

The disclosures required by the Companies Act 2006 in respect of the following matters are set out in the Strategic Report, as below:

- **Our strategy and future developments** – the Company's strategy and priorities for 2021 are highlighted in the Strategy and KPIs section of the Strategic Report on pages 26 to 45.
- **Our people and diversity** – the Company's policy and strategy for diversity and inclusion is highlighted in the Strategic Report on pages 16, 42 to 45 and 62.
- **Disability** – The Group has an Equal Opportunities and Diversity Framework which ensures full and fair consideration is given to applications from, and the continuing employment and training of, disabled people. Reasonable adjustments, as required under the Equality Act 2010, are made for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. During 2020 we extended our colleague inclusion networks to include a new group 'Enable' promoting the interests of colleagues with disabilities and other long-term health conditions.
- **Our people and engagement** – details of how the Company has engaged with employees during the year can be found in the Stakeholder Engagement section of the Strategic Report on pages 58 to 65. In addition, details of how the Board has considered the interests of employees in key decision making can be found in the section 172 statement included in the Strategic Report on page 60 and the Corporate Governance Report on pages 109 to 111. Information about how the Board has engaged with the workforce can also be found in the Corporate Governance Report on pages 104 to 105.
- **Our business relationships** – details of how the Company has engaged with its customers, suppliers and others can be found in the Stakeholder Engagement section of the Strategic Report on pages 58 to 65. In addition, details of how the Board has considered the need to foster the Company's business relationships with suppliers, customers and others can be found in the section 172 statement included in the Strategic Report on page 60 and Corporate Governance Report on pages 109 to 111.
- **Greenhouse gas emissions** – all disclosures concerning the Group's greenhouse emissions are contained in the Environmental Report forming part of the Strategic Report on pages 67 and 76 to 78.

Task Force on Climate-related Financial Disclosures ('TCFD')
In accordance with LR 9.8.6R, all climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures are contained in the TCFD report forming part of the Strategic Report on pages 67 to 78. Such disclosures have been included in the Strategic Report due to their strategic importance.

Energy usage and Carbon Emissions under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155)
All disclosures relating to the Group's energy usage and carbon emissions are contained in the TCFD report forming part of the Strategic Report on pages 67 and 78.

Political Donations
During 2020, the Company made no political donations.

Articles of Association
Changes to the Company's Articles require prior shareholder approval by special resolution.

The Articles are available on the Company's website at www.thephoenixgroup.com/about-us/corporate-governance/articles-of-association.aspx.

Re-Appointment of the Auditors
Ernst & Young LLP ('EY') has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 14 May 2021.

There is no cap on auditor liability in place in relation to audit work carried out on the IFRS consolidated financial statements and the Group's UK subsidiaries' individual financial statements.

Details of fees paid to EY during 2020 for audit and non-audit work are disclosed in note C4 to the IFRS consolidated financial statements.

Disclosure of information to Auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Group Company Secretary
The Group Company Secretary throughout the 2020 financial period was Gerald Watson.

Fair, balance and understandable
In accordance with the UK Corporate Governance Code, the Directors confirm that they have reviewed the Annual Report and consider that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

CONTRACTUAL/OTHER
Significant agreements impacted by a change of control of the Company
The £1.25 billion revolving credit facility has provisions which would enable the lending banks to require repayment of all amounts borrowed following a change of control.

All of the Company's employee share and incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

Apart from the aforementioned, there are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group.

Important post balance sheet events
Details of important events affecting the Company which have occurred since the end of the financial year are contained in note I7 to the IFRS consolidated financial statements.

Disclosures under Listing Rule 9.8.4R
For the purposes of Listing Rule 9.8.4C, the information required to be disclosed under Listing Rule 9.8.4R can be found within the following sections of the Report and Accounts:

Section	Requirement	Location
1	Statement of interest capitalised	Note E5 to the Consolidated Financial Statements
2	Publication of unaudited financial information	Not applicable
3	Deleted	Not applicable
4	Details of long-term incentive schemes	Directors' Remuneration Report
5	Waiver of emoluments by a Director	Directors' Remuneration Report
6	Waiver of any future emoluments by a Director	Directors' Remuneration Report
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS OF PHOENIX GROUP HOLDINGS PLC

The Directors are responsible for the preparation of the Annual Report and Accounts, the Strategic Report, the Directors' Report, the Directors' Remuneration Report, the corporate governance statement, the consolidated financial statements and the Company financial statements in accordance with applicable United Kingdom law and regulations.

The Board has prepared a Strategic Report which provides an overview of the development and performance of the Group's business for the year ended 31 December 2020, covers the future developments in the business of Phoenix Group Holdings plc and its consolidated subsidiaries and provides details of any important events affecting the Company and its subsidiaries after the year-end. For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

The Directors have prepared the consolidated financial statements and the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, the consolidated financial statements are required to be prepared in accordance with international financial reporting standards ('IFRSs') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing these financial statements the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- in respect of the consolidated financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the Company financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for making, and continuing to make, the Company's Annual Report and Accounts available on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors as at the date of this Directors' Report, whose names and functions are listed in the Board of Directors section on pages 98 to 100, confirm that, to the best of their knowledge:
- the consolidated financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and its consolidated subsidiaries taken as a whole; and
- the Strategic Report and the Corporate Governance and Directors' Report include a fair review of the development and the performance of the business and the position of the Company and its consolidated subsidiaries taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the Directors as at the date of this Directors' Report consider that the Annual Report and Accounts, taken as a whole, provides users (who have a reasonable knowledge of business and economic activities) with the information necessary for shareholders to assess the Group's position, performance, business model and strategy, and is fair, balanced and understandable.

The Strategic Report and the Directors' Report were approved by the Board of Directors on 7 March 2021.

By order of the Board

Andy Briggs
Group Chief Executive Officer

Rakesh Thakrar
Group Chief Financial Officer

7 March 2021

INDEPENDENT **AUDITOR'S REPORT**

OPINION

In our opinion:

- Phoenix Group Holdings plc's consolidated financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Phoenix Group Holdings plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise:

Group	Parent company
The consolidated income statement for the year ended 31 December 2020	The statement of financial position as at 31 December 2020
The statement of comprehensive income for the year then ended	The statement of changes in equity for the year then ended
The statement of consolidated financial position as at 31 December 2020	The statement of cash flows for the year then ended
The statement of consolidated changes in equity for the year then ended	Related notes 1 to 20 to the financial statements
The statement of consolidated cash flows for the year then ended	
Related notes A1 to I7 to the consolidated financial statements (except for note I3 where it is marked as unaudited), including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the consolidated financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. To evaluate management's assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting, we have:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 31 March 2022;
- with support from our actuarial team, challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Group. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessed the accuracy of management's analysis by testing the inputs and the clerical accuracy of the models used;
- evaluated the liquidity and solvency position of the Group by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic downturn that is anticipated to be experienced due to the impacts of COVID-19;
- challenged the key assumptions, such as expense assumptions underlying mandatory obligations of the Group and property market forecasts up to 31 March 2022, used in management's stress scenarios based on our understanding of the Group and the available external data, respectively;
- evaluated management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom and concluded it to be remote;

- assessed management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and its impact on the going concern assessment;
- assessed the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Group;
- checked that all mandatory debt and interest payments are forecast to be met under the base case and adverse stress scenarios and that, the Group is able to maintain target debt repayments throughout the going concern period;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Group's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business; and
- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

We have observed that in testing the Group's going concern status, a reasonably foreseeable stress has historically been modelled using a 1 in 10 market stress scenario. However, due to the current economic volatility that is anticipated due to the impacts of COVID-19, this stress is not considered to be appropriate and has been replaced with a more onerous economic downturn scenario for the current year assessment. Based on management's assessment, we have observed that the Group is able to continue to have surplus cash and solvency above its Solvency Coverage Ratio in a number of extreme downside scenarios and the Group has continued to service customers and meet its commitments in the current environment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for the period to 31 March 2022.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and Parent Company's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	• We performed an audit of the complete financial information of the Group Function, Phoenix Life Division, Standard Life Assurance Limited and ReAssure Limited and audit procedures on specific balances for Other Companies (the 'reporting components'). Our scope is explained further on pages 166 to 167. • The components where we performed full or specific audit procedures accounted for more than 99% of the equity and profit before tax of the Group.
Key audit matters	• Valuation of insurance contract liabilities, comprising the following risk areas: – actuarial assumptions; – actuarial modelling; and – data. • Valuation of certain complex and illiquid financial investments. • Accounting for the acquisition of ReAssure Limited and other associated entities. • Recoverability of intangible assets arising from the acquisition of Standard Life Assurance Limited and other associated entities.
Materiality	Overall Group materiality of £140 million (2019: £100 million) which represents 2% (2019: 2.1%) of total equity attributable to owners of the parent ('Group equity').

AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each reporting component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each reporting component. As disclosed in the Risk Management section of the Annual Report and Accounts, integration of ReAssure Group plc into the wider Group is underway, with completion expected at the end of 2022. In our current year assessment of audit risk and the level of work to be performed at the ReAssure component, we considered its risk profile and effectiveness of entity-level controls.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified five reporting components of the Group. The Group reporting components consist of Phoenix Life Division, Standard Life Assurance Limited, ReAssure Limited, the Group Function and Other Companies.

In the Phoenix Life Division component, the most significant insurance companies are Phoenix Life Assurance Limited and Phoenix Life Limited. Standard Life Assurance Limited and ReAssure Limited are the most significant companies of those respective components. The Group Function consists of Group entities that primarily hold external debt and the pension schemes of the Group. The Other Companies include the Phoenix Life and Standard Life service companies, ReAssure Life Limited, ReAssure UK Services Limited, ReAssure MidCo Limited, Ark Life Assurance Company, ERIP Limited Partnership and Standard Life International Designated Activity Company (‘SLIDAC’).

Four of the reporting components were audited by component teams as set out below:

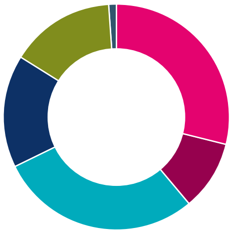
Component	Scope	Auditor
Phoenix Life Division	Full	EY component team
Standard Life Assurance Limited (‘SLAL’)	Full	EY component team
ReAssure Limited (‘RAL’)	Full	EY component team
Group Function	Full	EY primary team
Other Companies	Specific (including specified procedures)	EY component team

Of the five reporting components selected, we performed an audit of the complete financial information of four components (‘full scope components’) which were selected based on their size or risk characteristics. For the remaining Other Companies, we performed audit procedures on specific accounts of Phoenix Life and Standard Life service companies (provisions, accruals and deferred income, administrative expenses excluding acquisition costs), ReAssure Life Limited (collective investment schemes), ReAssure MidCo Limited (pension scheme surplus), ReAssure UK Services Limited (administrative expenses excluding acquisition costs), Ark Life Assurance Company (reinsurers’ share of insurance contract liabilities) and ERIP Limited Partnership (derivative liabilities). We also instructed the SLIDAC component audit team to perform specified procedures over insurance contract liabilities relating to the contracts in the entity prior to the business transfer from SLAL in 2019.

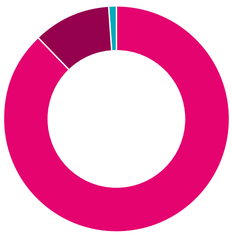
The reporting components where we performed audit procedures accounted for more than 99% (2019: 99%) of the Group’s equity and the Group’s profit before tax. For the current year, the full scope components contributed 84% (2019: 87%) of the Group’s equity and 88% (2019: 90%) of the Group’s profit before tax. The specific scope components, including the component with specified procedures contributed 15% (2019: 12%) of the Group’s equity and 11% (2019: 9%) of the Group’s profit before tax. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Equity



Profit before tax



Changes from the prior year

ReAssure Limited is a new reporting component of the Group in 2020 following the acquisition completed on 22 July 2020. Due to the size and risk inherent in the component, we have designated it as a full scope component. ReAssure Life Limited, ReAssure UK Services Limited, ReAssure MidCo Limited, Ark Life Assurance Company and ERIP Limited Partnership, acquired as part of the ReAssure acquisition, are within the 'Other Companies' reporting component and are designated as a specific scope component. Ark Life Assurance Company is audited by EY Ireland.

In the prior year, we identified SLIDAC as a specific scope component of the Group. In the 2020 financial year, the size of SLIDAC's specific accounts decreased relative to the overall Group and, therefore, we instructed the SLIDAC component audit team to perform specified procedures over insurance contract liabilities relating to the contracts in the entity prior to the business transfer from SLAL in 2019.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary audit team.

Of the four full scope components, audit procedures were performed on one of these directly by the primary audit team whilst the remaining three components were audited by the component audit teams. For Other Companies, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Due to travel restrictions in place as a result of the COVID-19 global health pandemic, although no site visits were performed, the primary audit team followed a programme of planned virtual meetings and maintained oversight of component teams by using remote collaboration platforms and through regular meetings. This allowed the primary audit team to gain a greater understanding of the business issues faced in each component, discuss the audit approach with the component teams and any issues arising from their work, virtually attend meetings with component management, and review key audit working papers.

For all full scope components, the primary audit team reviewed key working papers and participated in the component teams' planning, including the component teams' discussion of fraud and error. The primary audit team virtually attended the closing meetings with the management of the Phoenix Life Division, Standard Life Assurance Limited and ReAssure Limited and the Audit Committee meetings at the components.

For the specific scope component, the primary audit team have reviewed the audit procedures performed by the component team on the specific accounts.

The work performed on the components, together with the additional procedures performed at the Group level, gave us appropriate evidence for our opinion on the consolidated financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In the current year, our Auditor's Report includes an additional key audit matter in relation to accounting for the acquisition of ReAssure Limited and other associated entities as the acquisition transaction was completed in the 2020 financial year.

Risk

Valuation of insurance contract liabilities (£135.7bn; 2019: £97.0bn)

Refer to the Audit Committee Report (page 116); Critical accounting estimates (page 185); Accounting policies and note F1 of the consolidated financial statements (pages 227 to 230)

We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events, both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of the data.

We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:
- actuarial assumptions;
- actuarial modelling; and
- data.

The specific audit procedures performed to address the significant risk are set out below. In addition, we assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements as this provided important audit evidence over the valuation of insurance contract liabilities.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions *We consider the COVID-19 pandemic to have increased the risk associated with the longevity and assured mortality assumptions.* Economic assumptions are set by management taking into account market conditions as at the valuation date and require minimal judgment. Non-economic assumptions are set based on the Group's past experience, market experience and practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency, assured mortality and expenses. As stated in note F4 of the consolidated financial statements, some allowance has been made in the valuation and capital calculations for the potential short-term effects of COVID-19 on timing of cash flows relating to the insurance risks to which the Group is exposed. However, management has not adjusted the assumptions to reflect the impact of COVID-19 on the basis that the longer term impact on mortality and morbidity is uncertain at the current time.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, using EY actuaries as part of our audit team, we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • challenged and assessed whether the methodology and assumptions applied were appropriate based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; • reviewed and challenged the results of management's experience analysis, including the base longevity, persistency and assured mortality, to assess whether these justified the adopted assumptions. This has incorporated specific challenge of management's consideration of COVID-19 in the setting of these assumptions and whether it was appropriate for management not to adjust the key assumptions for the longer term impact of COVID-19 and provide an allowance for the potential short-term effects of COVID-19; • in respect of longevity improvements, we evaluated the results of management's analysis on longevity trend, challenged the judgments applied by management in setting the parameters and benchmarked the output against other industry participants and the results from the industry standard Continuous Mortality Investigation ('CMI'); • assessed the expense assumptions adopted by management with reference to the management service agreement ('MSA') with the Service companies; • assessed the assumptions applied for ReAssure and benchmarked them against the existing Phoenix Group; • performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and • benchmarked the demographic and economic assumptions, against those of other comparable industry participants. We performed full scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date (including specific consideration of the impact of COVID-19), industry practice and the financial and regulatory requirements. We consider it appropriate that assumptions have not been adjusted to reflect the impact of COVID-19 as the longer term impact on morbidity and mortality in particular is not yet clear, and the position adopted by management is consistent with that taken by most companies operating in the life insurance sector.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial modelling *There has been no change in our assessment of this risk from the prior year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £126bn of the £135.7bn (2019: over £92.0bn of £97.0bn) insurance contract liabilities are modelled using the core actuarial modelling systems, with the residual balance modelled outside these systems to cater for any additional required liabilities not reflected in the models. We consider the key risks to relate to i) model developments applied to the core actuarial models and ii) the appropriateness of the calculations that are applied outside of the core actuarial model.	To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, using EY actuaries as part of our audit team we performed the following procedures: • obtained an understanding of management's process for model changes to the core actuarial system and tested the design, implementation and operating effectiveness of key controls over that process, including an assessment of the operational impacts of COVID-19 on those controls; • challenged and evaluated the methodology, inputs and assumptions applied to model changes made in the core actuarial modelling systems over the year; • reviewed the governance process around model changes by review of the relevant committee minutes; • being the first year of our appointment as auditors of ReAssure Limited, performed independent model testing procedures on: – Immediate annuity liabilities – we used policy terms and conditions from product literature and management's reserving methodology and assumptions to create our own independent model to assess the appropriateness of management's model. – With-profits asset shares – we tested the roll forward of asset shares between time periods that was performed by management and evaluated the appropriateness of inputs against source data. In addition, we compared the rolled forward asset shares to management's modelled asset shares to assess reasonableness of the model. • obtained the outputs of the Standard Life Assurance Limited model migration programme. For each of the modelling differences identified as part of this programme we challenged management's assessment of whether they represented an error in the current approach or a refinement leading to a change in estimate; • assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented; and • stratified the components of the balance modelled outside the core actuarial system as at balance sheet date and focused our testing on those that, in our professional judgment, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology. We performed full scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined that the models used are appropriate, that changes to the models were implemented as intended and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling systems were operating effectively. We also determined that liabilities modelled outside these core actuarial modelling systems are reasonable.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Data *There has been no change in our assessment of this risk from the prior year.* The insurance contract data held on policy administration systems ('the policyholder data') is a key input into the valuation process. The valuation of insurance contract liabilities is therefore reliant upon the accuracy and completeness of the data used.	To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of the key controls, including information technology general controls, over management's data collection, extraction and validation process, including an assessment of the operational impacts of COVID-19 on the applicable controls; • for Outsourced Service Providers ('OSP') where we have placed reliance on the Service Organisation Controls ('SOC1') report, we have reviewed the SOC1 report and determined the impact of any identified control exceptions; • for OSPs where we do not receive a SOC1 report we have obtained an understanding of the process over data extraction and input into the actuarial models and performed direct testing of the design and operating effectiveness of the key controls; • confirmed that the actuarial data extracted from policy administration systems and those provided by the OSPs were those used as an input to the actuarial model; • assessed the appropriateness of management's grouping of data for input into the actuarial model; • through the use of our data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of the policyholder data and the appropriateness of management's data cleansing rules; and • performed the comparison of policy level data between data in the actuarial models and that contained within the policy administration systems. Evaluated the accuracy of policyholder data by testing a sample to the policyholder documents. We performed full scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of certain complex and illiquid financial investments (Equity release mortgages £3.5bn; 2019: £2.8bn); (Modelled debt securities £5.7bn; 2019: £1.9bn) *We consider the risk associated with valuation of certain complex and illiquid financial investments to have increased as a result of increased uncertainty due to the COVID-19 pandemic.* Refer to the Audit Committee Report (page 116); Critical accounting estimates (page 185); Accounting policies and notes E1 and E2 of the consolidated financial statements (pages 200 to 211). The extent of judgment applied by management in valuing the Group's financial investments varies with the nature of securities held, the markets in which they are traded and the valuation methodology applied. Observable inputs are not readily available for the valuation of equity release mortgages ('ERM') financial investments and the modelled debt securities, such as private placements, local authority loans, infrastructure loans and commercial real estate loans. Consequently, management use models and other inputs to estimate their value. We consider that the key risks on the valuation of ERM financial investments relates to: i) assumptions as these are largely based on non-observable inputs and are highly judgmental, and ii) the completeness and accuracy of data feeding the valuation model. We consider that the key risks related to valuation of modelled debt securities to be the (i) use of complex valuation methodologies as opposed to observable prices; ii) significant judgments involved in setting the spread above risk-free rate; iii) the subjectivity surrounding the selection of the comparable bonds to derive that spread; and iv) reasonableness of credit ratings considering the impact of COVID-19. Additionally, the valuation of the modelled debt securities for the Phoenix Life Division and Standard Life Assurance Limited components has been outsourced by its OSP to a third party during the year which increases the risk of management's oversight over the valuation processes for these financial investments.	We used EY valuation specialists and actuaries to test the valuation of ERMs and modelled debt securities. To obtain sufficient audit evidence to conclude on the valuation of ERMs, we: • tested the design and operating effectiveness of key controls over management's assumption setting processes for valuing these instruments; • tested the completeness of the ERM financial investments and underlying data at the period end through independent confirmation from the OSPs; • tested the accuracy of mortgage data used in the valuation model by agreeing a sample of new loans to supporting evidence and validating any movements on static data over the period; • evaluated the methodology, inputs and assumptions used to value the ERM financial investments including the No Negative Equity Guarantee ('NNEG') (such as house price inflation, residential house price volatility, longevity improvement and base mortality, as well as economic assumptions such as discount rate); • validated the key assumptions including relevant COVID-19 considerations by comparing them to published market benchmarks and demographic and economic assumptions used by other industry participants, to confirm that key valuation inputs were consistent with industry norms and our understanding of the instrument type; and • developed our own independent model to value the ERM loans and compared the output to the results produced by the Group. To obtain sufficient audit evidence to conclude on the valuation of modelled debt securities, we: • reviewed the SOC1 report of the OSPs covering the period to 30 September 2020, including those controls over the valuation of modelled debt securities outsourced to the third party, and determined the impact of any identified control exceptions. This included an assessment of the operational impacts of COVID-19 on the applicable controls; • obtained the bridging letter for the period 1 October 2020 to 31 December 2020 to confirm that the controls over the valuation of modelled debt securities were operating during the period. In addition, we tested a sample of these controls in the bridging period to confirm they were operating effectively; • inspected evidence of the operation of management's oversight controls over the OSPs, including an assessment of the operational impacts of COVID-19 on the applicable oversight controls; • understood the valuation process of modelled debt securities applied by the OSP of the Phoenix Life Division and Standard Life Assurance Limited components and assessed the appropriateness of any methodology and assumption changes during the year; • for modelled debt securities overseen by in-house Independent Pricing Valuation ('IPV') and Credit and Valuation Committee, we have obtained an understanding of the valuation methodology and tested the design and operating effectiveness of the key controls; • engaged EY valuation specialists to evaluate the appropriateness of valuation methodology, calculate an independent range of comparable values for a sample of modelled debt securities using an independent valuation model and considered reasonable alternative key assumptions based on comparable securities. Our valuation procedures were designed to take into account the impact of the COVID-19 pandemic. • validated the accuracy of security related inputs to the valuation of modelled debt securities by tracing a sample of inputs to the underlying agreements and documentation. • performed independent calibration based on securities implied rate and sector credit spreads to validate the reasonableness of credit ratings used in the comparable values assessment; and • considered the downgrade of credit ratings or changes of spread in management's credit watchlist and known market risks in our independent comparable values assessment. We performed full scope audit procedures over this risk area in three components, which covered 100% of the risk amount.	Based on our procedures performed on the ERM financial investments and the modelled debt securities, we are satisfied that the valuation of these complex and illiquid assets is reasonable.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the acquisition of ReAssure Limited and other associated entities *This is a new significant risk for the current year.* *Refer to the Audit Committee Report (page 116); Critical accounting estimates (page 186); Accounting policies and notes H2.1 of the consolidated financial statements (pages 267 to 268).* On 22 July 2020, the Group acquired ReAssure Limited, ReAssure Life Limited, ReAssure UK Services Limited, Ark Life Assurance Company and other related entities (collectively 'ReAssure') from Swiss Re Finance Midco (Jersey) Limited for total consideration of £3.1bn. We consider the identification and valuation of identifiable intangible assets, such as acquired in-force business ('AVIF') and other intangibles, and the gain arising from the acquisition of the ReAssure businesses to be significant risks due to the nature of judgments and estimates involved. We also recognise a risk of disclosure non-compliance with the applicable reporting framework. Under the Group's accounting policy, acquired value of in-force insurance contracts is measured as the difference between the Generally Accepted Accounting Practice ('GAAP') value of the insurance contract liabilities and the determined fair value. As a result, we focused on significant judgments in respect of the identification of the intangible assets acquired, GAAP valuation of the ReAssure Limited insurance contract liabilities as at the date of acquisition, and the fair value adjustments required in the insurance contract liabilities and their impact on the calculation of goodwill and AVIF. The primary element of the valuation exercise assessed the fair value of the identifiable intangible asset in the form of AVIF (£1,831 million), gross of tax. This resulted in a gain on acquisition of £372 million that was recognised in the Group's income statement for the year ended 31 December 2020, reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of ReAssure.	To obtain sufficient audit evidence to conclude on the appropriateness of accounting for the acquisition of ReAssure, we performed the following procedures: • being the first year of our appointment as auditors of ReAssure, performed on-site review of the predecessor auditor working papers and discussed the significant risk and judgmental areas with them; • performed additional first year audit procedures on the model testing and data integrity as discussed in the key audit matter sections above; • ensured appropriate recognition of all identifiable intangible assets by understanding the transaction and comparing it to other acquisitions of similar businesses; • assessed the methodology and assumptions adopted by management for calculating the fair values of intangible assets arising on acquisition and considered how market participants would value identifiable assets and liabilities in an orderly transaction; • with the support of our EY actuarial team and valuation specialists, assessed the appropriateness of the fair value adjustments to the insurance contract liabilities recognised on a best estimate basis within the acquired business, including assessment of the appropriate choice of discount rate; • ensured that the acquisition accounting and disclosure of the acquisition are in compliance with IFRS 3 Business Combinations; and • read relevant agreements and board minutes which supported the final conclusions in respect of the acquisition accounting.	Based on our procedures performed on the acquisition of ReAssure, we are satisfied that, on an overall basis, the fair value of the assets and liabilities acquired lies within a reasonable range of what a market participant in an orderly transaction would pay for the identifiable assets and liabilities and there is a justification for the gain on acquisition. In addition, we are satisfied that the acquisition accounting and disclosures are in compliance with the applicable accounting framework.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of intangible assets arising from the acquisition of Standard Life Assurance Limited and other associated entities (AVIF £2,262m; 2019: £2,538m); (CSPA intangible asset £30m; 2019: £33m) *There has been no change in our assessment of this risk from the prior year.* *Refer to the Audit Committee Report (page 116); Accounting policies and note G2 of the consolidated financial statements (pages 253 to 255).* On 31 August 2018, the Group acquired Standard Life Assurance Limited and other associated entities (collectively 'Standard Life') from Standard Life Aberdeen plc ('SLA plc') for total consideration of £2.994 billion. This gave rise to the recognition of intangible assets relating to acquired in force business ('AVIF') and the Client Service and Proposition Agreement ('CSPA') entered into between the Group and SLA plc. Each reporting period management is required to perform an assessment on the acquired intangible assets to identify any indicators of impairment. Where such indicators exist, management performs a recoverability assessment. This entails the application of a number of assumptions and judgments. Recoverability assessment of these intangible assets involves consideration of a number of judgmental and sensitive assumptions such as: • market movements and their impact on economic assumptions such as cost of capital; • significant changes to core valuation assumptions, being: lapses, longevity, late retirements; • any change in the assessment of AVIF and CSPA intangible asset value in use as a result of the Group and SLA plc agreement signed in February 2021 (as stated in note I7 of the consolidated financial statements). As a result, we consider valuation of the acquired intangible assets to have a higher risk of material misstatement.	To obtain sufficient audit evidence to assess recoverability of intangible assets arising from the acquisition of Standard Life, using EY actuaries as part of the audit team we performed the following procedures: • understood and evaluated management's process, model and assumptions supporting the recoverability assessment; • tested the controls over the completeness and accuracy of the data used in the recoverability assessment; • challenged management's assessment of impairment indicators by considering current market factors and assumption changes not modelled in the fair value exercise at the acquisition date and assessed their impact on the Standard Life AVIF value as at 31 December 2020; • obtained management's expectations of future profitability of the acquired entities and challenged the assumptions applied by management by comparing key assumptions and judgments with experience of the wider market and that of Phoenix; and • understood the terms and conditions of the Group and SLA plc agreement and considered all aspects of the transaction to assess whether it was an indication of an impairment as at 31 December 2020.	Based on our procedures performed on the recoverability of intangible assets arising from the acquisition of Standard Life, we are satisfied that there is no impairment necessary as at 31 December 2020.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

An omission or misstatement in the financial statements could reasonably be expected to influence the economic decisions of the users of the financial statements, depending on its magnitude. Materiality provides a basis for determining the nature and extent of our audit procedures.

- We determined materiality for the Group to be £140 million (2019: £100 million), which is 2% (2019: 2.1%) of Group equity. COVID-19 has not impacted significantly the Group equity and therefore, our consideration of materiality calculation. Whilst profit before tax or operating profit are common bases used across the life insurance industry and might be an appropriate measure for an open business, we believe that the use of equity as the basis for assessing materiality remains more appropriate given that the Group is primarily a closed life assurance consolidator and as such equity provides a more stable, long-term measure of value. We note also that equity more closely correlates with key Group performance metrics such as Solvency II capital requirements and Own Funds. However, as these measures are non-GAAP measures, we consider equity to be more appropriate.
- We determined materiality for the parent company to be £143 million (2019: £109 million), which is 2% (2019: 2%) of the parent company equity attributable to owners. We have used a capital based measure for determining materiality considering the nature of the parent company as a holding company. This is also consistent with the approach taken for the Group where we consider equity to be the most appropriate basis when considering against other measures such as IFRS profit before tax. For the Group audit purposes, we performed our audit procedures to the lower of the parent company and the Group allocated performance materiality.

During the course of our audit, we reassessed initial materiality of £130 million and updated it to £140 million due to an increase in the Group equity between the interim and year end period.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group’s overall control environment, our judgment was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £70 million (2019: £50 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £14 million to £38 million (2019: £13 million to £30 million).

Reporting threshold

Reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £7 million (2019: £5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on pages 1 to 163 and 303 to 318, other than the financial statements and our Auditor’s Report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors'Rremuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 161;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 90;
- Directors' statement on fair, balanced and understandable set out on page 162;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 83;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 117; and
- The section describing the work of the Audit Committee set out on pages 116 to 121.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 163, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the UK Listing Authority ('UKLA').
- We understood how Phoenix Group Holdings plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Group Board and Executive Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework.
- We assessed the susceptibility of the consolidated financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered the impact of COVID-19 on the Group's control environment. Our procedures over the Group's control environment included assessment of the consistency of operations and controls in place within the Group and the OSPs as they transitioned to operating remotely for a significant proportion of 2020.
- The fraud risk was considered to be higher within the valuation of insurance contract liabilities and accounting for the acquisition of ReAssure Limited and other associated entities. We considered management override risk to be higher in these areas due to the significant judgments and estimates involved. Our procedures, as detailed in the key audit matters above, included:
  - Reviewing accounting estimates for evidence of management bias. Supported by our actuarial team and valuation specialists, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities.
  - Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.
- We designed our audit procedures to identify non-compliance with both direct and other laws and regulations including those at the components impacting the Group. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the Company Directors on 13 December 2018 and signed an engagement letter on 20 February 2019 to audit the financial statements for the period ending 31 December 2018 and subsequent financial periods.
  The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31 December 2018 to 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Stuart Wilson
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London

7 March 2021

1 The maintenance and integrity of the Phoenix Group Holdings plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Gross premiums written		**4,706**	4,038
Less: premiums ceded to reinsurers	F3	**(796)**	(556)
Net premiums written		**3,910**	3,482
Fees and commissions	C1	**794**	700
Total revenue, net of reinsurance payable		**4,704**	4,182
Net investment income	C2	**16,935**	24,876
Other operating income		**121**	106
Gain on acquisition	H2.1	**372**	–
Gain on Part VII portfolio transfer	H2.2	**85**	–
Net income		**22,217**	29,164
Policyholder claims		**(7,808)**	(7,792)
Less: reinsurance recoveries		**1,613**	1,177
Change in insurance contract liabilities		**(3,249)**	(5,229)
Change in reinsurers' share of insurance contract liabilities		**(568)**	(320)
Transfer (to)/from unallocated surplus	F2	**(113)**	84
Net policyholder claims and benefits incurred		**(10,125)**	(12,080)
Change in investment contract liabilities		**(7,991)**	(14,080)
Change in present value of future profits	G2	**–**	70
Amortisation of acquired in-force business	G2	**(469)**	(382)
Amortisation of other intangibles	G2	**(18)**	(20)
Administrative expenses	C3	**(1,674)**	(1,549)
Net expense under arrangements with reinsurers	F3.3	**(219)**	(274)
Net income attributable to unitholders		**(217)**	(336)
Total operating expenses		**(20,713)**	(28,651)
Profit before finance costs and tax		**1,504**	513
Finance costs	C5	**(234)**	(162)
Profit for the year before tax		**1,270**	351
Tax charge attributable to policyholders' returns	C6	**(326)**	(365)
Profit/(loss) before the tax attributable to owners		**944**	(14)
Tax charge	C6	**(436)**	(235)
Add: tax attributable to policyholders' returns	C6	**326**	365
Tax (charge)/credit attributable to owners	C6	**(110)**	130
Profit for the year attributable to owners		**834**	116
Attributable to:			
Owners of the parent		**798**	85
Non-controlling interests	D5	**36**	31
		834	116
Earnings per ordinary share			
Basic (pence per share)	B3	**91.8p**	8.7p
Diluted (pence per share)	B3	**91.5p**	8.6p

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Profit for the year		**834**	116
Other comprehensive income/(expense):			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value gains/(losses) arising during the year		**129**	(40)
Reclassification adjustments for amounts recognised in profit or loss		**(79)**	41
Exchange differences on translating foreign operations		**33**	(29)
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability	G1	**(21)**	(24)
Tax charge relating to other comprehensive income items	C6	**(37)**	(57)
Total other comprehensive expense for the year		**25**	(109)
Total comprehensive income for the year		**859**	7
Attributable to:			
Owners of the parent		**823**	(24)
Non-controlling interests	D5	**36**	31
		859	7

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
Pension scheme asset	G1	**11**	314
Intangible assets			
Goodwill		**57**	57
Acquired in-force business		**5,013**	3,651
Other intangibles		**171**	271
	G2	**5,241**	3,979
Property, plant and equipment	G3	**119**	109
Investment property	G4	**7,128**	5,943
Financial assets			
Loans and deposits		**647**	516
Derivatives	E3	**6,880**	4,454
Equities		**82,634**	58,979
Investment in associate		**400**	513
Debt securities		**109,455**	76,113
Collective investment schemes		**89,248**	69,415
Reinsurers' share of investment contract liabilities		**9,559**	8,881
	E1	**298,823**	218,871
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	**9,542**	7,324
Reinsurance receivables		**141**	50
Insurance contract receivables		**94**	54
		9,777	7,428
Current tax	G8	**263**	75
Prepayments and accrued income		**343**	259
Other receivables	G5	**1,622**	1,233
Cash and cash equivalents	G6	**10,998**	4,466
Total assets		**334,325**	242,677

STATEMENT OF CONSOLIDATED FINANCIAL POSITION CONTINUED

	Notes	2020 £m	2019 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	D1	**100**	72
Share premium		**4**	2
Shares held by employee benefit trust	D2	**(6)**	(7)
Foreign currency translation reserve		**102**	69
Merger relief reserve	D1	**1,819**	–
Other reserves	D3	**48**	(2)
Retained earnings		**4,970**	4,651
Total equity attributable to owners of the parent		**7,037**	4,785
Tier 1 Notes	D4	**494**	494
Non-controlling interests	D5	**341**	314
Total equity		**7,872**	5,593
Liabilities			
Pension scheme liability	G1	**2,036**	1,712
Insurance contract liabilities			
Liabilities under insurance contracts	F1	**133,907**	95,643
Unallocated surplus	F2	**1,768**	1,367
		135,675	97,010
Financial liabilities			
Investment contracts		**165,106**	120,773
Borrowings	E5	**4,567**	2,119
Deposits received from reinsurers		**4,080**	4,213
Derivatives	E3	**1,001**	734
Net asset value attributable to unitholders		**3,791**	3,149
Obligations for repayment of collateral received		**5,205**	3,671
	E1	**183,750**	134,659
Provisions	G7	**282**	328
Deferred tax	G8	**1,036**	873
Reinsurance payables		**134**	101
Payables related to direct insurance contracts	G9	**1,669**	890
Lease liabilities	G10	**84**	84
Accruals and deferred income	G11	**521**	384
Other payables	G12	**1,266**	1,043
Total liabilities		**326,453**	237,084
Total equity and liabilities		**334,325**	242,677

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital (note D1) £m	Share premium (note D1) £m	Shares held by the employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Merger relief reserve (note D1) £m	Other reserves (note D3) £m	Retained earnings £m	Total £m	Tier 1 Notes (note D4) £m	Non-controlling interests (note D5) £m	Total equity £m
At 1 January 2020	**72**	**2**	**(7)**	**69**	**–**	**(2)**	**4,651**	**4,785**	**494**	**314**	**5,593**
Profit for the year	–	–	–	–	–	–	798	798	–	36	834
Other comprehensive income/(expense) for the year	–	–	–	33	–	50	(58)	25	–	–	25
Total comprehensive income for the year	–	–	–	33	–	50	740	823	–	36	859
Issue of ordinary share capital, net of associated commissions and expenses	28	2	–	–	1,819	–	–	1,849	–	–	1,849
Dividends paid on ordinary shares	–	–	–	–	–	–	(403)	(403)	–	–	(403)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(9)	(9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	13	13	–	–	13
Shares distributed by the employee benefit trust	–	–	8	–	–	–	(8)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(7)	–	–	–	–	(7)	–	–	(7)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2020	**100**	**4**	**(6)**	**102**	**1,819**	**48**	**4,970**	**7,037**	**494**	**341**	**7,872**

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital (note D1) £m	Share premium (note D1) £m	Shares held by employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Other reserves (note D3) £m	Retained earnings £m	Total £m	Tier 1 Notes (note D4) £m	Non-controlling interests (note D5) £m	Total equity £m
At 1 January 2019	72	3,077	(6)	98	(3)	1,923	5,161	494	294	5,949
Profit for the year	–	–	–	–	–	85	85	–	31	116
Other comprehensive (expense)/income for the year	–	–	–	(29)	1	(81)	(109)	–	–	(109)
Total comprehensive income for the year	–	–	–	(29)	1	4	(24)	–	31	7
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	(338)	(338)	–	–	(338)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(11)	(11)
Credit to equity for equity-settled share based payments	–	–	–	–	–	11	11	–	–	11
Shares distributed by employee benefit trust	–	–	3	–	–	(3)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(4)	–	–	–	(4)	–	–	(4)
Transfer of reserve (note A1)	–	(3,077)	–	–	–	3,077	–	–	–	–
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2019	72	2	(7)	69	(2)	4,651	4,785	494	314	5,593

STATEMENT OF CONSOLIDATED CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated by operations	I2	**7,316**	273
Taxation paid		**(562)**	(205)
Net cash flows from operating activities		**6,754**	68
Cash flows from Investing activities			
Acquisition of ReAssure businesses, net of cash acquired	H2.1	**(979)**	–
Net cash flows from investing activities		**(979)**	–
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		**2**	2
Ordinary share dividends paid	B4	**(403)**	(338)
Dividends paid to non-controlling interests	D5	**(9)**	(11)
Repayment of policyholder borrowings	E5.2	**(55)**	(34)
Repayment of shareholder borrowings	E5.2	**–**	(100)
Repayment of lease liabilities	G10	**(18)**	(15)
Proceeds from new shareholder borrowings, net of associated expenses	E5.2	**1,445**	100
Coupon paid on Tier 1 Notes		**(29)**	(29)
Interest paid on policyholder borrowings		**(5)**	(4)
Interest paid on shareholder borrowings		**(171)**	(99)
Net cash flows from financing activities		**757**	(528)
Net increase/(decrease) in cash and cash equivalents		**6,532**	(460)
Cash and cash equivalents at the beginning of the year		**4,466**	4,926
Cash and cash equivalents at the end of the year		**10,998**	4,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES

A1. Basis of Preparation

The consolidated financial statements for the year ended 31 December 2020 set out on pages 177 to 289 comprise the financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group'), and were authorised by the Board of Directors for issue on 7 March 2021.

In 2018, following a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between Phoenix Group Holdings ('Old PGH'), the former ultimate parent company of the Group, and its shareholders, all of the issued shares in Old PGH were cancelled and an equivalent number of new shares in Old PGH were issued to the Company in consideration for the allotment to Old PGH shareholders of one ordinary share in the Company for each ordinary share in Old PGH that they held on the scheme record date, 12 December 2018.

The scheme of arrangement had the effect of the Company being inserted above Old PGH in the Group legal entity organisational structure and constituted a group reconstruction. It was accounted for in accordance with the principles of a reverse acquisition under IFRS 3 Business Combinations.

In applying the principles of reverse acquisition accounting, the consolidated financial statements were presented as a continuation of the Old PGH business and the Group is presented as if the Company had always been the ultimate parent company. The equity structure as at 1 January 2018 was restated to reflect the difference between the par value of shares issued by the Company (£39 million) and the shares issued by Old PGH (£nil) prior to the share for share exchange, with a corresponding adjustment to share premium.

At 31 December 2018, the share premium reserve continued to reflect the position of Old PGH. During 2019, Old PGH, in accordance with Cayman Islands Companies Law, made a distribution of its entire share premium reserve to Phoenix Group Holdings plc. This was reflected as a transfer of share premium in the statement of consolidated changes in equity during 2019.

No other adjustments have been reflected in equity, and as a consequence, the carrying values of the components of equity recognised in the consolidated financial statements are different to the corresponding balances in the financial statements of the Company.

The consolidated financial statements have been prepared on a historical cost basis except for investment property, owner-occupied property and those financial assets and financial liabilities (including derivative instruments) that have been measured at fair value.

The consolidated financial statements are presented in sterling (£) rounded to the nearest million except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an International Financial Reporting Standard ('IFRS') or interpretation, as specifically disclosed in the accounting policies of the Group.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and also in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, including collective investment schemes, where the Group exercises overall control. In accordance with the principles set out in IFRS 10 *Consolidated Financial Statements,* the Group controls an investee if and only if the Group has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Further details about the consolidation of subsidiaries, including collective investment schemes, are included in note H1.

Going concern

The consolidated financial statements have been prepared on a going concern basis. In assessing whether the Group is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council ('FRC'), Guidance for Directors of UK Companies Going Concern and Liquidity, in October 2009. The considerations and approach are consistent with FRC provisions issued in September 2014 and the assessment has taken into account the requirements of the recent pronouncement from the Financial Reporting Lab, 'COVID-19 – Going concern, risk and viability'. Further details of the going concern assessment for the period to 31 March 2022 are included in the Directors' Report on page 161.

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence over the period covered by the assessment.

A2. Accounting Policies

The principal accounting policies have been consistently applied in these consolidated financial statements. Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note, with a view to enabling greater understanding of the results and financial position of the Group. All other significant accounting policies are disclosed below.

A2.1 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the period end;
- income, expenses and cash flows denominated in foreign currencies are translated at average exchange rates; and
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income.

Foreign currency transactions are translated into the functional currency of the transacting Group entity using exchange rates prevailing at the date of translation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value through profit or loss are included in foreign exchange gains and losses. Translation differences on non-monetary items at fair value through profit or loss are reported as part of the fair value gain or loss.

A3 Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Disclosures of judgements made by management in applying the Group's accounting policies include those that have the most significant effect on the amounts that are recognised in the consolidated financial statements. Disclosures of estimates and associated assumptions include those that have a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements as to the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are the measurement of insurance and investment contract liabilities, determination of the fair value of financial assets and liabilities, valuation of pension scheme assets and liabilities, valuation of intangibles on initial recognition and measurement of provisions.

The application of critical accounting judgements that could have the most significant effect on the recognised amounts include recognition of pension surplus, the determination of operating profit, identification of intangible assets arising on acquisitions, the recognition of an investment as an associate and determination of control with regards to underlying entities. Details of all critical accounting estimates and judgements are included below.

A3.1 Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in the accounting policies in note F1 with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note F4. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.

The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivities arising from significant non-economic assumptions are detailed on page 231 in note F4.

A3.2 Fair value of financial assets and liabilities

Financial assets and liabilities are measured at fair value and accounted for as set out in the accounting policies in note E1. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Further details of the estimates made are included in note E2. In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments. The details of this sensitivity analysis are included in note E2.3.

A3.3 Pension scheme obligations

The valuation of pension scheme obligations is determined using actuarial valuations that depend upon a number of assumptions, including discount rate, inflation and longevity. External actuarial advice is taken with regard to setting the financial assumptions to be used in the valuation. As defined benefit pension schemes are long-term in nature, such assumptions can be subject to significant uncertainty.

Further details of these estimates and the sensitivity of the defined benefit obligation to key assumptions are provided in note G1.

A. SIGNIFICANT ACCOUNTING POLICIES continued

A3 Critical Accounting Estimates and Judgements continued

A3.4 Recognition of pension scheme surplus

A pension scheme surplus can only be recognised to the extent that the sponsoring employer can utilise the asset through a refund of surplus or a reduction in contributions. A refund is available to the Group where it has an unconditional right to a refund on a gradual settlement of liabilities over time until all members have left the scheme. A review of the Trust Deeds of the Group's pension schemes that recognise a surplus has highlighted that the Scheme Trustees are not considered to have the unilateral power to trigger a wind-up of the Scheme and the Trustees' consent is not needed for the sponsoring company to trigger a wind-up. Where the last beneficiary died or left the scheme, the sponsoring company could close the Scheme and force the Trustees to trigger a wind-up by withholding its consent to continue the Scheme on a closed basis. This view is supported by external legal opinion and is considered to support the recognition of a surplus. Management has determined that the scheme administrator would be subject to a 35% tax charge on a refund and therefore any surplus is reduced by this amount. Further details of the Group's pension schemes are provided in note G1.

A3.5 Operating profit

Operating profit is the Group's non-GAAP measure of performance and gives stakeholders a better understanding of the underlying performance of the Group. The Group is required to make judgements as to the appropriate longer-term rates of investment return for the determination of operating profit based on risk-free yields at the start of the financial year, as detailed in note B2, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in note B1.

A3.6 Acquisition of the ReAssure businesses

The identification and valuation of identifiable intangible assets, such as acquired in-force business, arising from the Group's acquisition of the ReAssure businesses during the year, required the Group to make a number of judgements and estimates. Further details are included in notes G2 'Intangible assets' and H2 'Acquisitions'.

A3.7 Control and consolidation

The Group has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Group controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control in line with the requirements of IFRS 10 *Consolidated Financial Statements*. The control assessment therefore involves a number of further considerations such as whether the Group has a unilateral power of veto in general meetings and whether the existence of other agreements restrict the Group from being able to influence the activities. Further details of these judgements are given in note H1.

A3.8 Provisions

The Group holds a number of provisions and the amount of each provision is determined based on the Group's estimation of the outflow of resources required to settle each obligation as at 31 December 2020. The recognition and measurement of these provisions involves a high degree of judgement and estimation uncertainty. Further details of these provisions and the key uncertainties identified are included in note G7.

A4. Adoption of New Accounting Pronouncements in 2020

In preparing the consolidated financial statements, the Group has adopted the following standards, interpretations and amendments effective from 1 January 2020:

- Amendments to IFRS 3 *Business Combinations*: The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. These amendments have not impacted the Group's accounting treatment of business combinations.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) Phase 1: The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). Specific hedge accounting requirements have been modified to provide relief from potential effects of the uncertainty caused by IBOR reform. In addition, these amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The Group terminated its hedge accounting relationships at the start of the period and consequently the Group has not needed to use the relief provided in these amendments.
- Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*: Amendments clarify the definition of material and how it should be applied; and
- Amendments to the References to the Conceptual Framework in IFRS Standards.

A5. New Accounting Pronouncements not yet Effective

The IASB has issued the following standards or amended standards and interpretations which apply from the dates shown. The Group has decided not to early adopt any of these standards, amendments or interpretations where this is permitted.

- Amendment to IFRS 16 *Leases* COVID-19-Related Rent Concessions (1 June 2020): The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Group does not expect to make use of this practical expedient.
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (1 January 2021). The changes introduced in Phase 2 of the Interest Rate Benchmark Reform project relate to the modification of financial assets, financial liabilities and lease liabilities (introducing a practical expedient for modifications required by the IBOR reform), specific hedge accounting requirements to ensure hedge accounting is not discontinued solely because of the IBOR reform, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The IASB also amended IFRS 4 to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform. There is not expected to be an impact for the Group from implementing these amendments but a review will be undertaken in 2021 to confirm this.

- Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9 *Financial Instruments* (1 January 2021): Following the issue of IFRS 17 Insurance Contracts (Revised) in June 2020, the end date for applying the two options under the IFRS 4 amendments (including the temporary exemption from IFRS 9) was extended to 1 January 2023, aligning the date with the revised effective date of IFRS 17. The Group expects to take advantage of this extension to align the implementation of IFRS 9 and IFRS 17.
- IFRS 9 *Financial Instruments* (1 January 2023): Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model will require the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

  The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Group's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. Following the acquisition of the ReAssure businesses on 22 July 2020, this assessment was re-performed and the Group's activities were still considered to be predominantly connected with insurance.

  IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) effective from 1 January 2023. During the year, the Group continued its implementation activities in respect of IFRS 9 and expects to continue to value the majority of its financial assets as at fair value through profit or loss on initial recognition, either as a result of these financial assets being managed on a fair value basis or as a result of using the fair value option to irrevocably designate the assets at fair value through profit or loss. A number of additional disclosures will be required by IFRS 7 *Financial Instruments: Disclosures* as a result of implementing IFRS 9. Additional disclosures have been made in note E1.2 to the consolidated financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.
- IFRS 3 *Business Combinations* (1 January 2022): The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. There are no impacts from this amendment.
- IAS 16 *Property, Plant and Equipment* (1 January 2022): The amendments prohibit the Group from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Group is preparing the asset for its intended use. Instead, such sales proceeds and related costs should be recognised in profit or loss. These amendments do not currently have any impact on the Group.
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (1 January 2022): The amendments specify which costs a company includes when assessing whether a contract will be loss-making. These amendments are not expected to have any impact on the Group.
- Annual Improvements Cycle 2018 – 2020 (1 January 2022): Minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS *41 Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*. These amendments do not currently have any impact on the Group.
- IFRS 17 *Insurance Contracts* (1 January 2023). Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Group measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. The new standard uses three measurement approaches and the principles underlying two of these measurement approaches will significantly change the way the Group measures its insurance contracts and investment contracts with Discretionary Participation Features ('DPF'). These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. The Group's implementation project continued through 2020 with an increasing focus on implementation activities alongside ongoing financial and operational impact assessments and methodology development.

  In June 2020, the IASB issued its narrow-scope amendments to IFRS 17 to address a number of the concerns and issues identified in the original version of the standard. Whilst the changes have given clarity in some areas there remain a number of implementation challenges which the Group will need to address. Development of the Group's methodologies and accounting policies continues to progress with increasing focus on the application of these methodologies. Progress has been made in data and systems implementations, with development of business processes running in parallel. Following the acquisition of ReAssure Group plc in July 2020 work is progressing to align the IFRS 17 processes. During 2021 the focus is on completing systems build and preparing for the transition date, including business readiness activities.
- Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*) (1 January 2023). The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date deferred). The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. These amendments are not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

A. SIGNIFICANT ACCOUNTING POLICIES continued

A5. New Accounting Pronouncements not yet Effective continued

The following amendments to standards listed above have been endorsed by the EU:

- Amendment to IFRS 16 *Leases* COVID-19-Related Rent Concessions; and
- IFRS 9 *Financial Instruments*.

On 31 January 2020, the UK left the EU and effective from 1 January 2021, the European Commission will no longer endorse IFRSs for use in the UK. Legislation is in place to onshore and freeze EU-adopted IFRSs and from 1 January 2021 the Group will apply UK-adopted International Accounting Standards. The powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board once the draft statutory instrument, which was laid before Parliament on 1 February 2020, is approved. The following amendments to standards listed above have been endorsed for use in the UK by the Secretary of State:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9 Financial Instruments.

A6. Impacts of COVID-19 during the year

The 'Group Chief Executive Officer's Report', 'Business Review', 'Risk Management', 'Viability Statement' and 'Directors' Report: Going Concern' sections of this Annual Report and Accounts provide information as to the broader effects of COVID-19 on the Group's financial results, its operations and prospects. The Group has given due consideration as to the impact of uncertainty arising from COVID-19 related factors on the production of the consolidated financial statements. This has included an assessment as to the impact of weak economic conditions, market volatility, demographic experience, and government and regulatory intervention on the valuation, recognition and disclosure of the Group's assets and liabilities.

Considerations as to valuation uncertainty and other specific impacts of COVID-19 have been included within the notes to the consolidated financial statements that provide further detail on pension schemes, investment property, liabilities under insurance contracts and financial instruments.

Disclosures have been included in the following notes to the consolidated financial statements to provide additional information as to the impacts of COVID-19 during the year ended 31 December 2020:

	Note
Pension schemes	G1
Investment property	G4
Liabilities under insurance contracts – assumptions and insurance risk management	F4
Financial assets & liabilities – Fair value hierarchy	E2
Financial risk management	E6

B. EARNINGS PERFORMANCE

B1. Segmental Analysis

The Group defines and presents operating segments in accordance with IFRS 8 *Operating Segments* which requires such segments to be based on the information which is provided to the Board, and therefore segmental information in this note is presented on a different basis from profit or loss in the consolidated financial statements.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group.

Following the acquisition of the ReAssure businesses in 2020, the Group reassessed its operating segments to reflect the way the business was subsequently being managed. The Group now has five reportable segments comprising UK Heritage, UK Open, Europe, ReAssure and Management Services, as set out in note B1.1.

For management purposes, the Group is organised into business units based on their products and services. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. No such aggregation has been required in the current year.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs') distributed through the Group's Strategic Partnership with Standard Life Aberdeen plc ('SLA plc'), products sold under the SunLife brand, and annuities, including Bulk Purchase Annuity contracts.

The Europe segment includes business written in Ireland and Germany. This includes products that are actively being marketed to new policyholders, and legacy in-force products that are no longer being sold to new customers.

Following the acquisition of the ReAssure businesses during the year the acquired business is included in a separate segment. This reflects the way that the ReAssure business is currently reported for management purposes.

The Management Services segment comprises income from the life and holding companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

Unallocated Group includes consolidation adjustments and Group financing (including finance costs) which are managed on a Group basis and are not allocated to individual operating segments.

Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segmental results include those transfers between business segments which are then eliminated on consolidation.

Segmental measure of performance: Operating Profit

The Group uses a non-GAAP measure of performance, being operating profit, to evaluate segment performance. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movement in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Group's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Group's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities (see notes B2.2 and B2.3);
- amortisation and impairments of intangible assets (net of policyholder tax);
- finance costs attributable to owners;
- gains or losses on the acquisition or disposal of subsidiaries (net of related costs);
- the financial impacts of mandatory regulatory change;
- the profit or loss attributable to non-controlling interests;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the performance of the Group's operating segments on an ongoing basis. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the Solvency II capital position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

The Group therefore considers that operating profit provides a more representative indicator of the ability of the Group's operating companies to generate cash available for the servicing of the Group's debts and for distribution to shareholders. Accordingly, the measure is more closely aligned with the business model of the Group and how performance is managed by those charged with governance.

Restatement of prior period information

During the year, the Group reassessed its operating segments as a result of strategic developments. Specifically, the categorisation of the provision of annuities to existing policyholders with vesting products and from Bulk Purchase Annuity contracts has been revised such that this business is now included within the UK Open segment instead of within the UK Heritage segment.

Comparative segmental performance information has been restated to reflect this new presentation. UK Heritage operating profit has been reduced by £344 million to £350 million and the UK Open operating profit has been increased by the same amount to £417 million. UK Heritage segmental revenue has been reduced by £1,628 million to £729 million and the UK Open segmental revenue has been increased by the same amount to £2,135 million.

B. EARNINGS PERFORMANCE continued

B1. Segmental Analysis continued

B1.1 Segmental Result

	Notes	2020 £m	2019 restated £m
Operating profit			
UK Heritage		**278**	350
UK Open		**472**	417
Europe		**44**	52
ReAssure		**444**	–
Management Services		**6**	26
Unallocated Group		**(45)**	(35)
Total segmental operating profit		**1,199**	810
Investment return variances and economic assumption changes on long-term business	B2.2	**(47)**	(177)
Variance on owners' funds	B2.3	**148**	13
Amortisation of acquired in-force business		**(464)**	(375)
Amortisation of other intangibles	G2	**(18)**	(20)
Other non-operating items		**281**	(169)
Finance costs on borrowing attributable to owners		**(191)**	(127)
Profit/(loss) before the tax attributable to owners of the parent		**908**	(45)
Profit before tax attributable to non-controlling interests		**36**	31
Profit/(loss) before the tax attributable to owners		**944**	(14)

Other non-operating items in respect of 2020 include:

- a gain on acquisition of £372 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of ReAssure Group plc (see note H2.1 for further details);
- a gain of £85 million arising on completion of the Part VII transfer of the mature savings liabilities and associated assets from the L&G Group (see note H2.2 for further details);
- a net £43 million of additional costs associated with the delivery of the Group Target Operating Model for IT and Operations, comprising a £74 million increase in expenses recognised within liabilities under insurance contracts and partly offset by a £31 million release within the Transition and Transformation restructuring provision;
- costs of £37 million associated with the acquisition of ReAssure Group plc, and £19 million incurred under the subsequent integration programme;
- costs of £20 million associated with the on-going integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019, incurred since the Group's acquisition of ReAssure Group plc in July 2020;
- costs of £16 million associated with the transfer and integration of the L&G mature savings business;
- £34 million of other corporate project costs; and
- net other one-off items totalling a cost of £7 million.

Other non-operating items in respect of 2019 include:

- an £80 million benefit arising from updated expense assumptions for insurance contracts reflecting reduced future servicing costs as a result of transition activity. Such benefits on the Group's investment contract business will typically be recognised as incurred. This benefit has been more than offset by staff and external costs incurred or provided for in the period with regard to transition activity and the transformation of the Group's operating model and extended relationship with Tata Consultancy Services, totalling £190 million, of which £175 million relates to external costs;
- £5 million of costs associated with preparations to ready the business for Brexit;
- £41 million of other corporate project costs, including the Group's Internal Model harmonisation project and acquisition of ReAssure Group; and
- net other one-off items totalling a cost of £13 million.

Further details of the investment return variances and economic assumption changes on long-term business, and the variance on owners' funds are included in note B2.

B1.2 Segmental revenue

2020	UK Heritage £m	UK Open £m	Europe £m	ReAssure £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:							
Gross premiums written	**602**	**2,662**	**1,215**	**227**	**–**	**–**	**4,706**
Less: premiums ceded to reinsurers	**(210)**	**(367)**	**(29)**	**(190)**	**–**	**–**	**(796)**
Net premiums written	**392**	**2,295**	**1,186**	**37**	**–**	**–**	**3,910**
Fees and commissions	**296**	**303**	**50**	**145**	**–**	**–**	**794**
Income from other segments	**–**	**–**	**–**	**–**	**737**	**(737)**	**–**
Total segmental revenue	**688**	**2,598**	**1,236**	**182**	**737**	**(737)**	**4,704**

2019 restated	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	634	2,120	1,284	–	–	4,038
Less: premiums ceded to reinsurers	(225)	(303)	(28)	–	–	(556)
Net premiums written	409	1,817	1,256	–	–	3,482
Fees and commissions	320	318	62	–	–	700
Income from other segments	–	–	–	894	(894)	—
Total segmental revenue	729	2,135	1,318	894	(894)	4,182

Of the revenue from external customers presented in the table above, £3,818 million (2019: £3,131 million) is attributable to customers in the United Kingdom ('UK') and £886 million (2019: £1,051 million) to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £7,042 million (2019: £6,005 million) located in the UK and £433 million (2019: £375 million) located in the rest of the world.

B. EARNINGS PERFORMANCE continued

B2. Investment Return Variances and Economic Assumption Changes

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. The accounting policy adopted in the calculation of operating profit is detailed in note B1. The methodology for the determination of the expected investment return is explained below together with an analysis of investment return variances and economic assumption changes recognised outside of operating profit.

B2.1 Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15-year duration plus 10bps at the start of the year. A risk premium of 349bps is added to the risk-free yield for equities (2019: 350bps), 249bps for properties (2019: 250bps), 55bps for corporate bonds (2019: 120bps) and 15bps for gilts (2019: 50bps).

The principal assumptions underlying the calculation of the long-term investment return are:

	2020 %	2019 %
Equities	**4.7**	5.2
Properties	**3.7**	4.2
Gilts	**1.4**	2.2
Corporate bonds	**1.8**	2.9

B2.2 Life assurance business

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business, the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

The investment return variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	2020 £m	2019 £m
Investment return variances and economic assumption changes on long-term business	**(47)**	(177)

The net adverse investment return variances and economic assumption changes on long-term business of £47 million (2019: £177 million adverse) primarily arise as a result of movements in credit spreads, the impact of credit downgrades in the Group's investment portfolio and a net adverse impact from equity movements. Equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges are hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Losses have been experienced on hedging positions held by the Life companies in respect of rises in certain overseas equity markets in 2020, and on positions held by the ReAssure businesses as a result of improving UK equity markets in the post-acquisition period. These losses have been partly offset by gains on UK equity market hedges that the Group has had in place since 1 January 2020. Falling yields and strategic asset allocation activities undertaken by the Group, including investment in higher yielding illiquid assets, also gave rise to positive investment return variances in the year. The prior year result included losses arising on hedging positions held by the life funds reflecting improving equity markets in 2019.

B2.3 Owners' funds

For non-long-term business including owners' funds, the total investment income, including fair value gains, is analysed between a calculated longer-term return and short-term fluctuations.

The variances excluded from operating profit in relation to owners' funds are as follows:

	2020 £m	2019 £m
Variances on owners' funds of subsidiary undertakings	**148**	13

The net positive variance on owners' funds of £148 million (2019: £13 million positive) is principally driven by gains on interest rate hedging positions held within the shareholder funds of the life companies, together with gains arising on the hedge entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion. The net positive variance also includes gains on the close out of foreign currency swaps held by the holding companies to hedge exposure of future life company profits and non-sterling denominated shareholder borrowings to foreign currency movements. The prior year result included gains on foreign currency swaps held by the holding companies to hedge exposure of future life company profits to movements in exchange rates.

B3. Earnings Per Share

The Group calculates its basic earnings per share based on the present shares in issue using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated based on the potential future shares in issue assuming the conversion of all potentially dilutive ordinary shares. The weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive share awards granted to employees.

The basic and diluted earnings per share calculations are also presented based on the Group's operating profit net of financing costs. Operating profit is a non-GAAP performance measure that is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

The result attributable to ordinary equity holders of the parent for the purposes of determining earnings per share has been calculated as set out below.

2020	**Operating profit £m**	**Financing costs £m**	**Operating earnings net of financing costs £m**	**Other non-operating items £m**	**Total £m**
Profit/(loss) before the tax attributable to owners	**1,199**	**(191)**	**1,008**	**(64)**	**944**
Tax (charge)/credit attributable to owners	**(199)**	**48**	**(151)**	**41**	**(110)**
Profit/(loss) for the year attributable to owners	**1,000**	**(143)**	**857**	**(23)**	**834**
Coupon paid on Tier 1 notes, net of tax relief	**–**	**(23)**	**(23)**	**–**	**(23)**
Deduct: Share of result attributable to non-controlling interests	**–**	**–**	**–**	**(36)**	**(36)**
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**1,000**	**(166)**	**834**	**(59)**	**775**

2019	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	810	(127)	683	(697)	(14)
Tax (charge)/credit attributable to owners	(163)	35	(128)	258	130
Profit/(loss) for the year attributable to owners	647	(92)	555	(439)	116
Coupon paid on Tier 1 notes, net of tax relief	–	(23)	(23)	–	(23)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(31)	(31)
Profit/(loss) for the year attributable to ordinary equity holders of the parent	647	(115)	532	(470)	62

B. EARNINGS PERFORMANCE continued

B3. Earnings Per Share continued

The weighted average number of ordinary shares outstanding during the period is calculated as follows:

	2020 Number million	2019 Number million
Issued ordinary shares at beginning of the year	722	721
Effect of ordinary shares issued	123	–
Own shares held by the employee benefit trust	(1)	(1)
Weighted average number of ordinary shares	844	720

The diluted weighted average number of ordinary shares outstanding during the period is 846 million (2019: 722 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis by 2,316,109 shares for the year ended 31 December 2020 (2019: 1,474,170 shares).

Earnings per share disclosures are as follows:

	2020 pence	2019 pence
Basic earnings per share	91.8	8.7
Diluted earnings per share	91.5	8.6
Basic operating earnings net of financing costs per share	98.8	73.8
Diluted operating earnings net of financing costs per share	98.5	73.7

B4. Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period. Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

	2020 £m	2019 £m
Dividends declared and paid in the year	403	338

On 6 March 2020, the Board recommended a final dividend of 23.4p per share in respect of the year ended 31 December 2019. The dividend was approved at the Group's Annual General Meeting, which was held on 15 May 2020. The dividend amounted to £169 million and was paid on 19 May 2020.

On 5 August 2020, the Board declared an interim dividend of 23.4p per share for the half year ended 30 June 2020. The dividend amounted to £234 million and was paid on 4 September 2020.

C. OTHER CONSOLIDATED INCOME STATEMENT NOTES

C1. Fees and Commissions

Fees related to the provision of investment management services and administration services are recognised as services are provided. Front end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract.

The table below details the 'Disaggregation of Revenue' disclosures required by IFRS15 *Revenue from contracts with customers*.

2020	UK Heritage £m	UK Open £m	Europe £m	ReAssure £m	Total £m
Fee income from investment contracts without DPF	292	293	58	137	780
Initial fees deferred during the year	–	–	(8)	–	(8)
Revenue from investment contracts without DPF	292	293	50	137	772
Other revenue from contracts with customers	4	10	–	8	22
Fees and commissions	296	303	50	145	794

2019 restated	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	314	308	70	692
Initial fees deferred during the year	–	–	(8)	(8)
Revenue from investment contracts without DPF	314	308	62	684
Other revenue from contracts with customers	6	10	–	16
Fees and commissions	320	318	62	700

The comparative information for fee income from investments without DPF has been restated. UK Heritage fee income has been reduced by £40 million to £314 million and the UK Open fee income has been increased by the same amount to £308 million. For further details of the restatement see note B1.

Remaining performance obligations

The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Group has the right to consideration from customers in amounts that correspond with the performance completed to date. Specifically management charges become due over time in proportion to the Group's provision of investment management services.

Significant judgements in determining costs to obtain or fulfil investment contracts

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers, and no amortisation is required, as income directly matches costs with management charges being applied on an ongoing (or pro-rata) basis.

In the period no amortisation or impairment losses were recognised in the statement of comprehensive income.

C2. Net investment income

Net investment income comprises interest, dividends, rents receivable, net interest income/(expense) on the net defined benefit asset/(liability), fair value gains and losses on financial assets (except for reinsurers' share of investment contract liabilities without DPF, see note E1), financial liabilities and investment property at fair value and impairment losses on loans and receivables.

Interest income is recognised in the consolidated income statement as it accrues using the effective interest method.

Dividend income is recognised in the consolidated income statement on the date the right to receive payment is established, which in the case of listed securities is the ex-dividend date.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Fair value gains and losses on financial assets and financial liabilities designated at fair value through profit or loss are recognised in the consolidated income statement. Fair value gains and losses includes both realised and unrealised gains and losses.

	2020 £m	2019 £m
Investment income		
Interest income on loans and deposits at amortised cost	**8**	6
Interest income on financial assets designated at FVTPL on initial recognition	**2,313**	2,113
Dividend income	**3,525**	3,712
Rental income	**325**	298
Net interest expense on Group defined benefit (liability)/asset	**(29)**	(29)
	6,142	6,100
Fair value gains/(losses)		
Financial assets and financial liabilities at FVTPL:		
Designated upon initial recognition	**8,021**	17,574
Held for trading – derivatives	**2,824**	1,257
Investment property	**(52)**	(55)
	10,793	18,776
Net investment income	**16,935**	24,876

C. OTHER CONSOLIDATED INCOME STATEMENT NOTES continued

C3. Administrative expenses

Administrative expenses

Administrative expenses are recognised in the consolidated income statement as incurred.

Deferred acquisition costs

For insurance and investment contracts with DPF, acquisition costs which include both incremental acquisition costs and other direct costs of acquiring and processing new business, are deferred.

For investment contracts without DPF, incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred.

Trail or renewal commission on investment contracts without DPF where the Group does not have an unconditional legal right to avoid payment is deferred at inception of the contract and an offsetting liability for contingent commission is established.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

	2020 £m	2019 £m
Employee costs	433	334
Outsourcer expenses	175	141
Movement in provision for transition and transformation programme (see note G7)	(31)	159
Professional fees	230	135
Commission expenses	152	135
Office and IT costs	124	116
Investment management expenses and transaction costs	437	415
Direct costs of life companies	4	4
Direct costs of collective investment schemes	25	18
Depreciation	28	18
Pension service costs	2	–
Pension administrative expenses	5	4
Advertising and sponsorship	58	64
Stamp duty payable on acquisition of ReAssure businesses	16	–
Other	45	36
	1,703	1,579
Acquisition costs deferred during the year	(34)	(33)
Amortisation of deferred acquisition costs	5	3
Total administrative expenses	1,674	1,549

Employee costs comprise:

	2020 £m	2019 £m
Wages and salaries	390	304
Social security contributions	43	30
	433	334

	2020 Number	2019 Number
Average number of persons employed	5,752	4,403

C4. Auditor's Remuneration

During the year the Group obtained the following services from its auditor at costs as detailed in the table below.

	2020 £m	2019 £m
Audit of the consolidated financial statements	2.1	0.9
Audit of the Company's subsidiaries	9.6	5.1
	11.7	6.0
Audit-related assurance services	2.3	1.0
Reporting accountant assurance services	0.1	0.4
Total fee for assurance services	14.1	7.4
Corporate finance services	–	3.3
Tax services fees	–	–
Other non-audit services	0.4	–
Total fees for other services	0.4	3.3
Total auditor's remuneration	14.5	10.7

No services were provided by the Company's auditors to the Group's pension schemes in either 2020 or 2019.

Audit of the consolidated financial statements includes amounts in respect of reporting to the auditor of SLA plc given their status as a significant investor in both 2020 and 2019. The 2020 balance also includes amounts in respect of the audit of the acquisition balance sheet of the acquired ReAssure businesses.

Audit related assurance services includes fees payable for services where the reporting is required by law or regulation to be provided by the auditor, such as reporting on regulatory returns. It also includes fees payable in respect of reviews of interim financial information and services where the work is integrated with the audit itself.

Reporting accountant services relate to assurance reporting on historical information included within investment circulars. In both 2020 and 2019, this includes public reporting associated with the acquisition of the ReAssure businesses.

Corporate finance services fees were £nil (2019: £3.3 million). The 2019 fees principally related to services provided in connection with the acquisition of ReAssure. £1.6 million of the fees related to actuarial and finance due diligence procedures conducted in relation to the acquisition where synergies were anticipated to arise with subsequent audit work. The remaining balance of £1.7 million related to the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documents.

Other non-audit services were £0.4 million (2019: £nil). The 2020 fees related to services provided to the ReAssure businesses where the engagement occurred prior to completion of the acquisition and which were terminated within the three-month grace period.

Further information on auditor's remuneration and the assessment of the independence of the external auditor is set out in the Audit Committee report on pages 116 to 121.

C5. Finance Costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

	2020 £m	2019 £m
Interest expense		
On financial liabilities at amortised cost	230	156
On financial liabilities at FVTPL	–	3
On leases	4	3
	234	162
Attributable to:		
• policyholders	10	12
• owners	224	150
	234	162

C6. Tax charge

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of consolidated financial position together with adjustments to tax payable in respect of previous years.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year.

C6.1 Current year tax charge

	2020 £m	2019 £m
Current tax:		
UK corporation tax	306	210
Overseas tax	59	62
	365	272
Adjustment in respect of prior years	(4)	(11)
Total current tax charge	361	261
Deferred tax:		
Origination and reversal of temporary differences	111	52
Change in the rate of UK corporation tax	(37)	(50)
Write-down/(up) of deferred tax assets	1	(28)
Total deferred tax charge/(credit)	75	(26)
Total tax charge	436	235
Attributable to:		
• policyholders	326	365
• owners	110	(130)
Total tax charge	436	235

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £326 million (2019: £365 million).

C6.2 Tax charged to other Comprehensive Income

	2020 £m	2019 £m
Current tax charge	12	1
Deferred tax charge on defined benefit schemes	25	56
	37	57

C. OTHER CONSOLIDATED INCOME STATEMENT NOTES continued

C6. Tax charge continued

C6.3 Tax Credited to Equity

	2020 £m	2019 £m
Current tax credit on Tier 1 Notes	**(6)**	(6)

C6.4 Reconciliation of Tax Charge

	2020 £m	2019 £m
Profit for the year before tax	**1,270**	351
Policyholder tax charge	**(326)**	(365)
Profit/(loss) before the tax attributable to owners	**944**	(14)
Tax charge/(credit) at standard UK rate of 19%[1]	**179**	(3)
Non-taxable income, gains and losses[2]	**(78)**	3
Disallowable expenses[3]	**9**	22
Prior year tax credit for shareholders[4]	**(17)**	(51)
Movement on acquired in-force amortisation at rates other than 19%[5]	**77**	9
Profits taxed at rates other than 19%[6]	**(10)**	(13)
Recognition of previously unrecognised deferred tax assets[7]	**(25)**	(47)
Deferred tax rate change[8]	**(37)**	(50)
Current year losses not valued[9]	**9**	–
Other	**3**	–
Owners' tax charge/(credit)	**110**	(130)
Policyholder tax charge	**326**	365
Total tax charge for the year	**436**	235

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax charge has, therefore, been completed by reference to the standard rate of UK tax.

2 £(71) million relates to the non-taxable gain on acquisition of the ReAssure businesses. The balance primarily relates to non-taxable dividends, gains and non-taxable pension scheme items.

3 Disallowable expense deductions are primarily in relation to the acquisition of the ReAssure businesses.

4 The 2020 prior year credit primarily relates to overseas deferred acquisition costs in Standard Life International Designated Activity Company of £(8) million and a 2019 tax provision true-up in Standard Life Assurance Limited of £(5) million.

5 £65 million charge arising from the movement on acquired in-force amortisation following the L&G Part VII transfer.

6 The 2020 profits taxed at rates other than 19% relates to overseas profits and UK life company profits subject to marginal shareholder tax rates.

7 The 2020 tax credit represents the recognition of tax losses in the Group companies of £(3) million, intangible assets in Standard Life International Designated Activity Company of £(6) million and capital losses within ReAssure businesses of £(16) million.

8 The 2020 deferred tax rate change relates to the impact of retaining the 19% corporation tax rate and impact of the L&G Part VII transfer.

9 The 2020 charge for current year tax losses not valued relates to Standard Life International Designated Activity Company.

D. EQUITY

D1. Share Capital

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

	2020 £m	2019 £m
Issued and fully paid:		
999.2 million ordinary shares of £0.10 each (2019: 721.5 million)	**100**	72

The holders of ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

Movements in issued share capital during the year:

2020	**Number**	**£**
Shares in issue at 1 January	**721,514,944**	**72,151,494**
Ordinary shares issued to Swiss Re and MS&AD	**277,277,138**	**27,727,714**
Other ordinary shares issued in the period	**440,062**	**44,006**
Shares in issue at 31 December	**999,232,144**	**99,923,214**

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for total consideration of £3.1 billion. The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares ('the Acquisition Shares') to Swiss Re Group on 23 July 2020.

Pursuant to an agreement between Swiss Re Group and MS&AD Insurance Group Holdings ('MS&AD'), MS&AD transferred its entire shareholding in ReAssure Group plc to the Swiss Re Group prior to 22 July 2020 in consideration for the transfer of 144,877,304 of the Acquisition Shares at completion. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The Group has applied the relief in section 612 of the Companies Act 2006 to present the difference between the consideration received and the nominal value of the shares issued of £1,819 million in a merger reserve as opposed to in share premium. A merger reserve is required to be used as a result of the Group having issued equity shares as part consideration for the shares of ReAssure Group plc and securing at least a 90% holding in that entity.

During the year, 440,062 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

2019	Number	£
Shares in issue at 1 January	721,199,214	72,119,921
Other ordinary shares issued in the period	315,730	31,573
Shares in issue at 31 December	721,514,944	72,151,494

During 2019, 315,730 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

D2. Shares held by the Employee Benefit Trust

Where the Phoenix Group Employee Benefit Trust ('EBT') acquires shares in the Company or obtains rights to purchase its shares, the consideration paid (including any attributable transaction costs, net of tax) is shown as a deduction from owners' equity. Gains and losses on sales of shares held by the EBT are charged or credited to the own shares account in equity.

The EBT holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

	2020 £m	2019 £m
At 1 January	**7**	6
Shares acquired by the EBT	**7**	4
Shares awarded to employees by the EBT	**(8)**	(3)
At 31 December	**6**	7

During the year 1,230,763 (2019: 508,639) shares were awarded to employees by the EBT and 1,087,410 (2019: 614,193) shares were purchased. The number of shares held by the EBT at 31 December 2020 was 953,003 (2019: 1,096,356).

The Company provided the EBT with an interest-free facility arrangement to enable it to purchase the shares.

D3. Other reserves

The other reserves comprises the owner-occupied property revaluation reserve and the cash flow hedging reserve.

Owner-occupied property revaluation reserve

This reserve comprises the revaluation surplus arising on revaluation of owner-occupied property. When a revaluation loss arises on a previously revalued asset it should be deducted first against the previous revaluation gain. Any excess impairment will then be recorded as an impairment expense in the consolidated income statement.

Cash flow hedging reserve

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated income statement, and is reported in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

In April 2020, the Group terminated the derivative instruments which had been designated as hedging instruments in its cash flow hedging relationships. Hedge accounting was discontinued from the point of termination of the derivative instruments. The remaining cash flow hedging reserve will be reclassified to profit or loss over the remaining term of the hedged items.

Further details of the Group's hedge accounting policy are included in note E1.

2020	**Owner-occupied property revaluation reserve £m**	**Cash flow hedging reserve £m**	**Total other reserves £m**
At 1 January 2020	**5**	**(7)**	**(2)**
Other comprehensive income for the year	**–**	**50**	**50**
At 31 December 2020	**5**	**43**	**48**

2019	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2019	5	(8)	(3)
Other comprehensive income for the year	–	1	1
At 31 December 2019	5	(7)	(2)

D4. Tier 1 Notes

The Fixed Rate Reset Perpetual Restricted Tier 1 Contingent Convertible Notes ('Tier 1 Notes') meet the definition of equity and accordingly are shown as a separate category within equity at the proceeds of issue. The coupons on the instruments are recognised as distributions on the date of payment and are charged directly to the statement of consolidated changes in equity.

	2020 £m	2019 £m
Tier 1 Notes	**494**	494

On 26 April 2018, Old PGH issued £500 million of Tier 1 Notes, the proceeds of which were used to fund a portion of the cash consideration for the acquisition of the Standard Life Assurance businesses. The Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.75% per annum up to the 'First Call Date' of 26 April 2028. Thereafter the fixed rate of interest will be reset on the First Call Date and on each fifth anniversary of this date by reference to a 5 year gilt yield plus a margin of 4.169%. Interest is payable on the Tier 1 Notes semi-annually in arrears on 26 October and 26 April. The coupon paid in the year was £29 million (2019: £29 million).

At the issue date, the Tier 1 Notes were unsecured and subordinated obligations of Old PGH. On 12 December 2018, the Company was substituted in place of Old PGH as issuer.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the consolidated financial statements. If an interest payment is not made, it is cancelled and it shall not accumulate or be payable at any time thereafter.

D. EQUITY continued

D4. Tier 1 Notes continued

The Tier 1 Notes may be redeemed at par on the First Call Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date, such redemption must be funded out of the proceeds of a new issuance of, or exchanged into, Tier 1 Own Funds of the same or a higher quality than the Tier 1 Notes. In respect of any redemption or purchase of the Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA.

On 27 October 2020, the terms of the Tier 1 Notes were amended and the consequence of a trigger event, linked to the Solvency II capital position, was changed. Previously, the Tier 1 Notes were subject to a permanent write-down in value to zero. The amended terms require that the Tier 1 Notes would automatically be subject to conversion to ordinary shares of the Company at the conversion price of £1,000 per share, subject to adjustment in accordance with the terms and conditions of the notes and all accrued and unpaid interest would be cancelled. Following any such conversion there would be no reinstatement of any part of the principal amount of, or interest on, the Tier 1 Notes at any time.

D5. Non-Controlling Interests

Non-controlling interests are stated at the share of net assets attributed to the non-controlling interest holder at the time of acquisition, adjusted for the relevant share of subsequent changes in equity.

	SLPET £m
At 1 January 2020	**314**
Profit for the year	**36**
Dividends paid	**(9)**
At 31 December 2020	**341**

	SLPET £m
At 1 January 2019	294
Profit for the year	31
Dividends paid	(11)
At 31 December 2019	314

The non-controlling interests of £341 million (2019: £314 million) reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the proportionate value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 31 December 2020, the Group held 55.2% of the issued share capital of SLPET (2019: 55.2%).

The Group's interest in SLPET is held in the with-profit and unit-linked funds of the Group's life companies. Therefore, the shareholder exposure to the results of SLPET is limited to the impact of those results on the shareholder share of distributed profits of the relevant fund.

Summary financial information showing the interest that non-controlling interests have in the Group's activities and cash flows is shown below:

SLPET	2020 £m	2019 £m
Statement of financial position:		
Investments	**335**	286
Other assets	**9**	40
Total assets	**344**	326
Total liabilities	**3**	12
Income statement:		
Revenue	**41**	34
Profit after tax	**36**	31
Comprehensive income	**36**	31
Cash flows:		
Net (decrease)/increase in cash equivalents	**(19)**	4

E. FINANCIAL ASSETS & LIABILITIES

E1. Fair Values

Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and only include assets where a security has not been issued. These loans and deposits are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are largely classified as held for trading. They are recognised initially at fair value and subsequently are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated and effective as a hedging instrument. For such instruments, the timing of the recognition of any gain or loss that arises on remeasurement to fair value in profit or loss depends on the nature of the hedge relationship.

Equities, debt securities and collective investment schemes are designated at FVTPL and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at FVTPL because this is reflective of the manner in which the financial assets are managed and reduces a measurement inconsistency that would otherwise arise with regard to the insurance liabilities that the assets are backing.

Reinsurers share of investment contracts liabilities without DPF are valued, and associated gains and losses presented, on a basis consistent with investment contracts liabilities without DPF as detailed under the 'Financial liabilities' section below.

Impairment of financial assets
The Group assesses at each period end whether a financial asset or group of financial assets held at amortised cost are impaired. The Group first assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in the collective assessment of impairment.

Fair value estimation
The fair values of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the applicable bid price on the period end date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Associates
Investments in associates that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates which are of a strategic nature.

Derecognition of financial assets
A financial asset (or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at FVTPL for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts without DPF and other liabilities designated at FVTPL) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at FVTPL and where doing so results in more meaningful information because either:

- it eliminates or significantly reduces accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated and managed on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investments is provided internally on that basis to the Group's key management personnel.

Investment contracts without DPF
Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts and accounted for as financial liabilities.

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the statement of consolidated financial position as an adjustment to the liability to the policyholder.

The valuation of liabilities on unit-linked contracts is held at the fair value of the related assets and liabilities. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Movements in the fair value of investment contracts without DPF and reinsurers' share of investment contract liabilities are included in the 'change in investment contract liabilities' in the consolidated income statement.

Investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided.

E. FINANCIAL ASSETS & LIABILITIES continued

E1. Fair Values continued

Deposits from reinsurers

It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers' in the statement of consolidated financial position.

Net asset value attributable to unitholders

The net asset value attributable to unitholders represents the non-controlling interest in collective investment schemes which are consolidated by the Group. This interest is classified at FVTPL and measured at fair value, which is equal to the bid value of the number of units of the collective investment scheme not owned by the Group.

Obligations for repayment of collateral received

It is the Group's practice to obtain collateral in stock lending and derivative transactions, usually in the form of cash or marketable securities. Where cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'obligations for repayment of collateral received' in the statement of consolidated financial position. The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to the fair value of the consideration received.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the income statement.

Hedge accounting

In 2019 the Group previously designated certain derivatives as hedging instruments in order to effect cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note E3 sets out details of the fair values of the derivative instruments used for hedging purposes.

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time is recycled to profit or loss over the period the hedged item impacts profit or loss.

E1.1 Fair Values Analysis

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2020:

2020	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	6,880	6,429	6,880
Designated upon initial recognition:			
Equities[1]	82,634	–	82,634
Investment in associate[1] (see note H3)	400	–	400
Debt securities	109,455	94,070	109,455
Collective investment schemes[1]	89,248	–	89,248
Reinsurers' share of investment contract liabilities[1]	9,559	–	9,559
Financial assets measured at amortised cost:			
Loans and deposits	647	60	647
Total financial assets	298,823		298,823

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	1,001	727	1,001
Designated upon initial recognition:			
Borrowings	84	84	84
Net asset value attributable to unitholders[1]	3,791	–	3,791
Investment contract liabilities[1]	165,106	–	165,106
Financial liabilities measured at amortised cost:			
Borrowings	4,483	4,161	5,016
Deposits received from reinsurers	4,080	3,381	4,080
Obligations for repayment of collateral received	5,205	–	5,205
Total financial liabilities	183,750		184,283

1 These assets and liabilities have no expected settlement date.

E. FINANCIAL ASSETS & LIABILITIES continued
E1. Fair values analysis continued
E1.1 Fair Values Analysis continued

2019	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	4,454	4,023	4,454
Designated upon initial recognition:			
Equities[1]	58,979	–	58,979
Investment in associate[1] (see note H3)	513	–	513
Debt securities	76,113	69,165	76,113
Collective investment schemes[1]	69,415	–	69,415
Reinsurers' share of investment contract liabilities[1]	8,881	–	8,881
Financial assets measured at amortised cost:			
Loans and deposits	516	62	516
Total financial assets	218,871		218,871

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	734	387	734
Designated upon initial recognition:			
Borrowings	99	99	99
Net asset value attributable to unitholders[1]	3,149	–	3,149
Investment contract liabilities[1]	120,773	–	120,773
Financial liabilities measured at amortised cost:			
Borrowings	2,020	2,008	2,223
Deposits received from reinsurers	4,213	3,751	4,213
Obligations for repayment of collateral received	3,671	–	3,671
Total financial liabilities	134,659		134,862

1 These assets and liabilities have no expected settlement date.

E1.2 IFRS 9 Temporary exemption disclosures

Following application of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments* (see note A5) the table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest ('SPPI') (excluding those held for trading or managed on a fair value basis) and all other financial assets, measured at fair value through profit or loss.

	2020 £m	2019 £m
Financial assets with contractual cash flows that are SPPI excluding those held for trading or managed on a fair value basis:		
Loans and deposits	**647**	516
Cash and cash equivalents	**10,998**	4,466
Accrued income	**251**	160
Other receivables[1]	**1,541**	1,199
All other financial assets that are measured at fair value through profit or loss[2]	**298,176**	218,355

1 Other receivables excludes deferred acquisition costs.

2 The change in fair value during 2020 of all other financial assets that are measured at fair value through profit or loss is a £11,087 million gain (2019: £20,231 million gain).

An analysis of credit ratings of financial assets with contractual cash flows that are SPPI, excluding those held for trading or managed on a fair value basis, is provided below:

2020 Carrying value	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB and below £m**	**Non-rated[1] £m**	**Unit-linked £m**	**Total £m**
Loans and deposits	**–**	**6**	**195**	**–**	**–**	**368**	**78**	**647**
Cash and cash equivalents	**30**	**1,728**	**7,049**	**173**	**–**	**10**	**2,008**	**10,998**
Accrued income	**–**	**–**	**–**	**–**	**–**	**251**	**–**	**251**
Other receivables	**–**	**–**	**–**	**–**	**–**	**1,541**	**–**	**1,541**
	30	**1,734**	**7,244**	**173**	**–**	**2,170**	**2,086**	**13,437**

2019 Carrying value	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated[1] £m	Unit-linked £m	Total £m
Loans and deposits	–	21	47	164	–	284	–	516
Cash and cash equivalents	295	733	3,105	23	–	270	40	4,466
Accrued income	–	–	–	–	–	160	–	160
Other receivables	–	–	–	–	–	1,199	–	1,199
	295	754	3,152	187	–	1,913	40	6,341

1 The Group has assessed its non-rated assets as having a low credit risk.

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E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy

E2.1 Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments

The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicate higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments

Financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs, are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified at Level 2, only where there is a sufficient range of available quotes. The fair value of over the counter derivatives is estimated using pricing models or discounted cash flow techniques. Collective investment schemes where the underlying assets are not priced using active market prices are determined to be Level 2 instruments. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flows are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments

The Group's financial instruments determined by valuation techniques using non-observable market inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, non-observable third party evidence in the form of net asset valuation statements is used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on observable market data where applicable. The fair value of loans, derivatives and some borrowings with no external market is determined by internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible.

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) during each reporting period.

Fair value hierarchy information for non-financial assets measured at fair value is included in note G3 for owner-occupied property and in note G4 for investment property.

E2.2 Fair value hierarchy of financial instruments

The tables below separately identify financial instruments carried at fair value from those measured on another basis but for which fair value is disclosed.

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	320	6,362	198	6,880
Financial assets designated at FVTPL upon initial recognition:				
Equities	81,024	47	1,563	82,634
Investment in associate	400	–	–	400
Debt securities	74,043	25,248	10,164	109,455
Collective investment schemes	86,677	2,170	401	89,248
Reinsurers' share of investment contract liabilities	8,962	597	–	9,559
	251,106	28,062	12,128	291,296
Total financial assets measured at fair value	251,426	34,424	12,326	298,176
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	632	15	647
	251,426	35,056	12,341	298,823

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	119	720	162	1,001
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	84	84
Net asset value attributable to unit-holders	3,791	–	–	3,791
Investment contract liabilities	–	165,106	–	165,106
	3,791	165,106	84	168,981
Total financial liabilities measured at fair value	3,910	165,826	246	169,982
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	4,812	204	5,016
Deposits received from reinsurers	–	3,983	97	4,080
Total financial liabilities for which fair values are disclosed	–	8,795	301	9,096
	3,910	174,621	547	179,078

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	284	3,995	175	4,454
Financial assets designated at FVTPL upon initial recognition:				
Equities	57,383	–	1,596	58,979
Investment in associate	513	–	–	513
Debt securities	38,176	31,911	6,026	76,113
Collective investment schemes	67,513	1,256	646	69,415
Reinsurers' share of investment contract liabilities	8,856	25	–	8,881
	172,441	33,192	8,268	213,901
Total financial assets measured at fair value	172,725	37,187	8,443	218,355
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	516	–	516
	172,725	37,703	8,443	218,871

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	76	584	74	734
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	99	99
Net asset value attributable to unitholders	3,149	–	–	3,149
Investment contract liabilities	–	120,773	–	120,773
	3,149	120,773	99	124,021
Total financial liabilities measured at fair value	3,225	121,357	173	124,755
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	1,974	249	2,223
Deposits received from reinsurers	–	4,213	–	4,213
Total financial liabilities for which fair values are disclosed	–	6,187	249	6,436
	3,225	127,544	422	131,191

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy continued

E2.3 Level 3 Financial instrument sensitivities

As explained in note A6, weak economic conditions from COVID-19 and market volatility have resulted in the fair valuation of all Level 3 assets being subject to increased uncertainty. In response to this, additional analysis has been performed to confirm that the fair value of financial instruments included in the consolidated financial statements is reasonable.

A proportion of the Group's level 3 financial assets are held to back unit linked business and unsupported with-profit funds. As such, movements in the fair value of those assets will typically be offset by corresponding movements in insurance and investment contract liabilities. From a financial reporting perspective, valuation risk is centered on those assets held in the shareholder funds or to back liabilities in the non-profit or supported with-profit funds. The table below shows the shareholder exposure to Level 3 assets as at 31 December 2020:

	Shareholder, NPF & Supported WPF £m	Unit linked & Unsupported WPF £m	Total fair value £m
Financial assets measured at fair value			
Derivatives	198	–	198
Financial assets designated at FVTPL upon initial recognition:			
Equities	761	802	1,563
Debt securities	9,299	865	10,164
Collective investment schemes	11	390	401
Total financial assets measured at fair value	10,269	2,057	12,326

Level 3 investments in equities (including private equity and unlisted property investment vehicles) and collective investment schemes (including hedge funds) are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared.

E2.3.1 Debt securities

Analysis of Level 3 debt securities	2020 £m	2019 £m
Unquoted corporate bonds:		
Local authority loans	646	262
Private placements	2,351	1,147
Infrastructure loans	1,564	341
Equity release mortgages	3,484	2,781
Commercial real estate loans	1,075	388
Income strips	692	690
Bridging loans to private equity funds	320	320
Corporate transactions (see E2.3.3)	29	43
Other	3	54
Total Level 3 debt securities	10,164	6,026

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £4,561 million (2019: £1,750 million). These unquoted corporate bonds are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £246 million (2019: £81 million) and a decrease of 35bps would increase the value by £190 million (2019: £87 million).

As at 31 December 2020, following the effects of the COVID-19 crisis, the credit ratings for a small number of unquoted corporate bonds have been downgraded and the impacts of this have been reflected in the fair values at 31 December 2020. There remains some ongoing uncertainty in respect of the credit ratings for unquoted corporate bonds and commercial real estate loans in light of the continuing economic volatility. Internal review processes are in place to closely monitor credit ratings and additional reviews are carried out as required, for example when triggered by credit performance or market factors. The financial impact of reasonable movements in spreads has been quantified above.

Included within debt securities are investments in equity release mortgages with a value of £3,484 million (2019: £2,781 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables, entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption.

Cash flows are discounted using a risk free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of ERM loans.

Considering the fair valuation uses certain inputs that are not market observable, the fair value measurement of these loans has been categorised as a Level 3 fair value. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin, age and loan to value ratio of each portfolio. Experience analysis is used to inform this assumption, however where experience is limited for more recently originated loans, significant expert judgement is required.

The significant sensitivities arise from movements in the yield curve, inflation rate, house prices, mortality and voluntary redemption rate. An increase of 100bps in the yield curve would decrease the value by £351 million (2019: £265 million) and a decrease of 100bps would increase the value by £397 million (2019: £296 million). An increase of 1% in the inflation rate would increase the value by £29 million (2019: £26 million) and a decrease of 1% would decrease the value by £48 million (2019: £43 million).

An increase of 10% in house prices would increase the value by £16 million (2019: £15 million) and a decrease of 10% would decrease the value by £26 million (2019: £25 million). An increase of 5% in mortality would decrease the value by £11 million (2019: £8 million) and a decrease of 5% in mortality would increase the value by £7 million (2019: £5 million). An increase of 15% in the voluntary redemption rate would decrease the value by £24 million (2019: £17 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £22 million (2019: £15 million).

The Group also holds investments in commercial real estate loans with a value of £1,075 million (2019: £388 million). The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 35bps in the discount rate would decrease the value by £15 million (2019: £7 million) and a decrease of 35bps would increase the value by £16 million (2019: £7 million).

Also included within debt securities are income strips with a value of £692 million (2019: £690 million). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £68 million (2019: £66 million) and a decrease of 35bps would increase the value by £86 million (2019: £79 million).

E2.3.2 Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £84 million (2019: £99 million), measured using an internally developed model. The valuation is sensitive to key assumption of the discount rate. An increase in the discount rate of 1% would decrease the value by £1 million (2019: £1 million) and a decrease of 1% would increase the value by £1 million (2019: £1 million).

E2.3.3 Corporate transactions

Included within financial assets and liabilities are related debt securities of £29 million (2019: £43 million) and derivative liabilities of £2 million (2019: £4 million) pertaining to a reinsurance and retrocession arrangement (see note E3.2 for further information on these arrangements). These assets and liabilities are valued using a discounted cash flow model that includes valuation adjustments in respect of liquidity and credit risk. At 31 December 2020, the net of these balances was an asset of £27 million (2019: asset of £39 million). The valuation is sensitive to movements in the euro swap curve. An increase of 100bps in the swap curve would decrease the aggregate value by £1 million (2019: £2 million) and a decrease of 100bps would increase the aggregate value by £1 million (2019: £2 million).

Included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £155 million (2019: £134 million) and £85 million (2019: £70 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £15 million (2019: £13 million) and a decrease of 100bps would increase the net value by £17 million (2019: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £11 million (2019: £10 million) and a decrease of 1% would decrease the value by £12 million (2019: £10 million).

E2.3.4 Derivatives

Included within derivative assets are forward local authority loans, forward private placements and forward infrastructure loans with a value of £43 million (2019: £41 million). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £19 million (2019: £25 million) and a decrease of 35bps would increase the value by £20 million (2019: £28 million).

Also included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £75 million, under which a share of the disposal proceeds arising on a portfolio of property reversions is payable to a third party (see note E.3.3 for further details). The carrying value of the financial liability is the discounted present value of all future property sales that will be passed to the counterparty as part of the swap arrangement. The valuation is sensitive to the discount rate applied. An increase of 1% in the discount rate would decrease the value by £3 million and a decrease of 1% in the discount rate would increase the value by £3 million.

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair Value Hierarchy continued

E2.4 Transfers of financial instruments between Level 1 and Level 2

2020	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Collective investment schemes	1	–
Debt securities	492	10,174

2019	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Collective investment schemes	19	16
Debt securities	349	25

Consistent with the prior year, all the Group’s Level 1 and Level 2 assets have been valued using standard market pricing sources.

The application of the Group’s fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads for debt securities resulted in assets being moved from Level 2 to Level 1, and from Level 1 to Level 2.

E2.5 Movement in Level 3 financial instruments measured at fair value

2020	At 1 January 2020 £m	Net gains/(losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets								
Derivatives	175	23	–	–	–	–	198	36
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,596	113	213	(361)	2	–	1,563	44
Debt securities	6,026	432	6,301	(2,635)	63	(23)	10,164	471
Collective investment schemes	646	(161)	1	(85)	–	–	401	(100)
	8,268	384	6,515	(3,081)	65	(23)	12,128	415
Total financial assets	8,443	407	6,515	(3,081)	65	(23)	12,326	451

2020	At 1 January 2020 £m	Net losses in income statement £m	Effect of acquisitions/ purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	74	17	78	(7)	–	–	162	13
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	99	4	–	(19)	–	–	84	4
Total financial liabilities	173	21	78	(26)	–	–	246	17

2019	At 1 January 2019 £m	Net gains/ (losses) in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	162	13	–	–	–	–	175	13
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,369	65	307	(387)	242	–	1,596	32
Debt securities	4,410	378	1,961	(721)	1	(3)	6,026	322
Collective investment schemes	793	(135)	1	(13)	–	–	646	(136)
	6,572	308	2,269	(1,121)	243	(3)	8,268	218
Total financial assets	6,734	321	2,269	(1,121)	243	(3)	8,443	231

2019	At 1 January 2019 £m	Net gains in income statement £m	Effect of purchases £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2019 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	109	(35)	–	–	–	–	74	(35)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	127	(6)	–	(22)	–	–	99	(6)
Total financial liabilities	236	(41)	–	(22)	–	–	173	(41)

Gains and losses on Level 3 financial instruments are included in net investment income in the consolidated income statement. There were no gains or losses recognised in other comprehensive income in either the current or comparative period.

E. FINANCIAL ASSETS & LIABILITIES continued

E3. Derivatives

The Group purchases derivative financial instruments principally in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Group does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin. The Group also holds derivatives to hedge financial liabilities denominated in foreign currency.

Derivative financial instruments are largely classified as held for trading. Such instruments are recognised initially at fair value and are subsequently remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated as a hedging instrument and where the resultant hedge is assessed as effective. For such instruments, any gain or loss that arises on remeasurement to fair value is initially recognised in other comprehensive income and is recycled to profit or loss as the hedged item impacts the profit or loss. See note E1 for further details of the Group's hedging accounting policy.

E3.1 Summary

The fair values of derivative financial instruments are as follows:

	Assets 2020 £m	**Liabilities 2020 £m**	Assets 2019 £m	Liabilities 2019 £m
Forward currency	**286**	**134**	138	90
Credit default swaps	**108**	**13**	138	33
Contracts for difference	**7**	**4**	1	–
Interest rate swaps	**2,754**	**98**	1,738	143
Total return bond swaps	**52**	**–**	33	–
Swaptions	**2,643**	**27**	1,800	16
Inflation swaps	**59**	**132**	46	111
Equity options	**543**	**322**	344	161
Stock index futures	**53**	**90**	10	52
Fixed income futures	**63**	**20**	70	54
Retrocession contracts	**–**	**1**	–	4
Longevity swap contracts	**155**	**85**	134	70
Currency futures	**1**	**–**	2	–
Cross-currency swaps	**156**	**–**	–	–
Equity Release Income Plan total return swap	**–**	**75**	–	–
	6,880	**1,001**	4,454	734

E3.2 Corporate transactions

The Group has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Group's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. Derivative assets of £155 million and derivative liabilities of £85 million have been recognised as at 31 December 2020 (2019: £134 million and £70 million respectively).

In addition, the Group has entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of the insurance risk. Taken as a whole, this transaction does not give rise to the transfer of significant insurance risk to the Group and therefore does not meet the definition of an insurance contract under the Group's accounting policies. The fair value of amounts due from the cedant are recognised within debt securities (see note E1). The fair value of amounts due to the retrocessionaire are recognised as a derivative liability and totalled £1 million at 31 December 2020 (2019: £4 million).

E3.3 Equity Release Income Plan ('ERIP') total return swap

ERIP contracts are an equity release product under which the Group holds a reversionary interest in the residential property of policyholders who have been provided with a lifetime annuity in return for the legal title to their property (see note G4). The Group is party to an ERIP total return swap under which a share of the future generated cash flows arising under the ERIP contracts is payable to a third party. Over time, as the property reversions are realised, the relevant share of disposal proceeds is transferred to a third party who also holds a beneficial interest in these residential properties. The carrying amount of the derivative liability is the present value of all future cash flows due to the third party under the total return swap.

E4. Collateral Arrangements

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement. Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the statement of consolidated financial position and a corresponding receivable is recognised for its return.

E4.1 Financial instrument collateral arrangements

The Group has no financial assets and financial liabilities that have been offset in the statement of consolidated financial position as at 31 December 2020 (2019: none).

The table below contains disclosures related to financial assets and financial liabilities recognised in the statement of consolidated financial position that are subject to enforceable master netting arrangements or similar agreements. Such agreements do not meet the criteria for offsetting in the statement of consolidated financial position as the Group has no current legally enforceable right to offset recognised financial instruments. Furthermore, certain related assets received as collateral under the netting arrangements will not be recognised in the statement of consolidated financial position as the Group does not have permission to sell or re-pledge, except in the case of default. Details of the Group's collateral arrangements in respect of these recognised assets and liabilities are provided below.

		Related amounts not offset		
2020 **Financial assets**	**Gross and net amounts of recognised financial assets £m**	**Financial instruments and cash collateral received £m**	**Derivative liabilities £m**	**Net amount £m**
OTC derivatives	6,523	5,389	219	915
Exchange traded derivatives	357	9	17	331
Stock lending	2,435	2,435	–	–
Total	**9,315**	**7,833**	**236**	**1,246**

		Related amounts not offset		
Financial liabilities	**Gross and net amounts of recognised financial liabilities £m**	**Financial instruments and cash collateral pledged £m**	**Derivative assets £m**	**Net amount £m**
OTC derivatives	886	328	219	339
Exchange traded derivatives	115	31	17	67
Total	**1,001**	**359**	**236**	**406**

E. FINANCIAL ASSETS & LIABILITIES continued

E4. Collateral Arrangements continued

E4.1 Financial instrument collateral arrangements continued

2019 Financial assets	Gross and net amounts of recognised financial assets £m	Related amounts not offset Financial instruments and cash collateral received £m	Related amounts not offset Derivative liabilities £m	Net amount £m
OTC derivatives	3,908	3,542	43	323
Exchange traded derivatives	546	6	–	540
Stock lending	3,050	3,050	–	–
Total	7,504	6,598	43	863

Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Related amounts not offset Financial instruments and cash collateral pledged £m	Related amounts not offset Derivative assets £m	Net amount £m
OTC derivatives	650	313	43	294
Exchange traded derivatives	84	10	–	74
Total	734	323	43	368

E4.2 Derivative collateral arrangements

Assets accepted

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to over-the-counter ('OTC') derivatives usually in the form of cash or marketable financial instruments.

The fair value of financial assets accepted as collateral for OTC derivatives but not recognised in the statement of consolidated financial position amounts to £885 million (2019: £437 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2020 are set out below.

	OTC derivatives **2020** **£m**	OTC derivatives 2019 £m
Financial assets	**5,205**	3,671
Financial liabilities	**(5,205)**	(3,671)

The maximum exposure to credit risk in respect of OTC derivative assets is £6,523 million (2019: £3,908 million) of which credit risk of £5,608 million (2019: £3,585 million) is mitigated by use of collateral arrangements (which are settled net after taking account of any OTC derivative liabilities owed to the counterparty).

Credit risk on exchange traded derivative assets of £357 million (2019: £546 million) is mitigated through regular margining and the protection offered by the exchange.

Assets pledged

The Group pledges collateral in respect of its OTC derivative liabilities. The value of assets pledged at 31 December 2020 in respect of OTC derivative liabilities of £886 million (2019: £650 million) amounted to £1,216 million (2019: £692 million).

E4.3 Stock lending collateral arrangements
The Group lends listed financial assets held in its investment portfolio to other institutions.

The Group conducts stock lending only with well-established, reputable institutions in accordance with established market conventions. The financial assets do not qualify for derecognition as the Group retains all the risks and rewards of the transferred assets except for the voting rights.

It is the Group's practice to obtain collateral in stock lending transactions, usually in the form of cash or marketable financial instruments.

The fair value of financial assets accepted as such collateral but not recognised in the statement of consolidated financial position amounts to £2,686 million (2019: £3,306 million).

The maximum exposure to credit risk in respect of stock lending transactions is £2,435 million (2019: £3,050 million) of which credit risk of £2,435 million (2019: £3,050 million) is mitigated through the use of collateral arrangements.

E4.4 Other collateral arrangements
Details of collateral received to mitigate the counterparty risk arising from the Group's reinsurance transactions is given in note F3.

Collateral has also been pledged and charges have been granted in respect of certain Group borrowings. The details of these arrangements are set out in note E5.

E5. Borrowings
The Group classifies the majority of its interest bearing borrowings as financial liabilities carried at amortised cost and these are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the consolidated income statement over the period of the borrowing using the effective interest method.

Certain borrowings are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated in the financial liabilities accounting policy (see note E1). Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

Borrowings are classified as either policyholder or shareholder borrowings. Policyholder borrowings are those borrowings where there is either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations.

E. FINANCIAL ASSETS & LIABILITIES continued

E5. Borrowings continued

E5.1 Analysis of borrowings

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
Limited recourse bonds 2022 7.59% (note a)	–	35	–	38
Property reversions loan (note b)	84	99	84	99
Total policyholder borrowings	84	134	84	137
£200 million 7.25% unsecured subordinated loan (note c)	200	196	204	211
£300 million senior unsecured bond (note d)	122	121	125	130
£428 million Tier 2 subordinated notes (note e)	426	426	517	503
£450 million Tier 3 subordinated notes (note f)	449	449	470	473
US $500 million Tier 2 bonds (note g)	364	376	416	396
€500 million Tier 2 bonds (note h)	442	417	516	472
US $750 million Contingent Convertible Tier 1 notes (note i)	545	–	585	–
£500 million Tier 2 notes (note j)	484	–	622	–
US $500 million Fixed Rate Reset Tier 2 notes (note k)	364	–	395	–
£500 million 5.867% Tier 2 subordinated notes (note l)	556	–	620	–
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note m)	272	–	280	–
£250 million 4.016% Tier 3 subordinated notes (note n)	259	–	266	–
Total shareholder borrowings	4,483	1,985	5,016	2,185
Total borrowings	4,567	2,119	5,100	2,322
Amount due for settlement after 12 months	4,245	2,107		

a. In 1998, Mutual Securitisation plc raised £260 million of capital through the securitisation of Embedded Value on a block of existing unit-linked and unitised with-profit life and pension policies. The bonds were split between two classes, which ranked pari passu and were listed on the Irish Stock Exchange. The £140 million 7.39% class A1 limited recourse bonds matured in 2012 with no remaining outstanding principal. The £120 million 7.59% class A2 limited recourse bonds with an outstanding principal of £36 million as at 31 December 2019 were due to mature in 2022. During 2019, repayments totalling £12 million were made. As at 31 December 2019, Phoenix Life Assurance Limited ('PLAL') had provided collateral of £14 million to provide security to the holders of the recourse bonds in issue. On 4 August 2020, Mutual Securitisation plc redeemed all the outstanding class A2 limited recourse bonds in issue.

b. The Property Reversions loan from Santander UK plc ('Santander') was recognised in the consolidated financial statements at fair value. It relates to the sale of Extra-Income Plan policies that Santander finances to the value of the associated property reversions. As part of the arrangement Santander receive an amount calculated by reference to the movement in the Halifax House Price Index and the Group is required to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. During 2020, repayments totalling £19 million were made (2019: £22 million). Note G4 contains details of the assets that support this loan.

c. Scottish Mutual Assurance Limited issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001 ('PLL subordinated debt'). The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. With effect from 1 January 2009, following a Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. In the event of the winding-up of PLL, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). As a result of the acquisition of the Phoenix Life businesses in 2009, these subordinated loan notes were acquired at their fair value and as such, the outstanding principal of these subordinated loan notes differs from the carrying value in the statement of consolidated financial position. The fair value adjustments, which were recognised on acquisition, will unwind over the remaining life of these subordinated loan notes. With effect from 23 December 2014, minor modifications were made to the terms of the notes to enable them to qualify as Tier 2 capital for regulatory reporting purposes. Expenses incurred in effecting these modifications amounted to £10 million. Given the modifications were not substantial, the carrying amount of the liability was adjusted accordingly and the expenses are being amortised over the life of the notes.

On 8 February 2021, the Group provided notice that it would repay the loan notes on their first call date in March 2021 and accordingly they are presented as due within 12 months.

d. On 7 July 2014, the Group's financing subsidiary, PGH Capital plc ('PGHC'), issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('£300 million senior bond'). On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million senior bond. On 5 May 2017, Old PGH completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount. Accrued interest on the purchased bonds was settled on this date. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million 7 year senior unsecured bond.

e. On 23 January 2015, PGHC issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. Fees associated with these notes of £3 million were deferred and are being amortised over the life of the notes in the statement of consolidated financial position. Upon exchange £32 million of these notes were held by Group companies. On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes and then on 12 December 2018 the Company was substituted in place of Old PGH as issuer.

f. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes. On 5 May 2017, Old PGH completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017. The Group received a premium of £2 million in excess of the principal amount. Fees associated with these notes of £5 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

g. On 6 July 2017, Old PGH issued US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%. Fees associated with these notes of £2 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

h. On 24 September 2018, Old PGH issued €500 million Tier 2 notes due 2029 with a coupon of 4.375%. Fees associated with these notes of £7 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

i. On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes (the 'Contingent Convertible Tier 1 Notes') which are unsecured and subordinated. The Contingent Convertible Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company. The Contingent Convertible Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.625% per annum up to the 'First Reset Date' of 26 April 2025. Thereafter the fixed rate of interest will be reset on the First Reset Date and on each fifth anniversary of this date by reference to the sum of the yield of the Constant Maturity Treasury ('CMT') rate (based on the prevailing five year US Treasury yield) plus a margin of 4.035%, being the initial credit spread used in pricing the notes. Interest is payable on the Contingent Convertible Tier 1 Notes semi-annually in arrears on 26 April and 26 October. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

   The terms of the Contingent Convertible Tier 1 Notes contain a contingent settlement provision which is linked to the occurrence of a 'Capital Disqualification Event'. Such an event is deemed to have taken place where, as a result of a change to the Solvency II regulations, the Contingent Convertible Tier 1 Notes are fully excluded from counting as own funds. On the occurrence of such an event and where the Company has chosen not to use its corresponding right to redeem the notes the Company shall no longer be able to exercise its discretion to cancel any interest payments due on such Contingent Convertible Tier 1 Notes on any interest payment date following the occurrence of this event. Accordingly the Contingent Convertible Tier 1 Notes are considered to meet the definition of a financial liability for financial reporting purposes.

   The Contingent Convertible Tier 1 Notes may be redeemed at par on the First Reset Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date such redemption must be funded out of the proceeds of a new issuance of, or exchanged into, Tier 1 Own Funds of the same or a higher quality than the Contingent Convertible Tier 1 Notes. In respect of any redemption or purchase of the Contingent Convertible Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA. Furthermore, on occurrence of a trigger event, linked to the Solvency II capital position and as documented in the terms of the Contingent Convertible Tier 1 Notes, the Contingent Convertible Tier 1 Notes will automatically be subject to conversion to ordinary shares of the Company at the conversion price of US $1,000 per share, subject to adjustment in accordance with the terms and conditions of the notes and all accrued and unpaid interest will be cancelled. Following such conversion there shall be no reinstatement of any part of the principal amount of, or interest on, the Contingent Convertible Tier 1 Notes at any time.

j. On 28 April 2020, the Company issued £500 million fixed rate Tier 2 Notes (the 'Tier 2 Notes') which are unsecured and subordinated. The Tier 2 Notes have a maturity date of 28 April 2031 and include an issuer par call right for the three month period prior to maturity. The Tier 2 Notes bear interest on the principal amount at a fixed rate of 5.625% per annum payable annually in arrears on 28 April each year.

k. On 4 June 2020, the Company issued US $500 million fixed rate reset callable Tier 2 notes (the 'Fixed Rate Reset Tier 2 Notes') which are unsecured and subordinated. The Fixed Rate Reset Tier 2 notes have a maturity date of 4 September 2031 with an optional issuer par call right on any day in the three month period up to and including 4 September 2026. The Fixed Rate Reset Tier 2 Notes bear interest on the principal amount at a fixed rate of 4.75% per annum up to the interest rate reset date of 4 September 2026. If the Fixed Rate Reset Tier 2 Notes are not redeemed before that date, the interest rate resets to the sum of the applicable CMT rate (based on the prevailing five year US Treasury yield) plus a margin of 4.276%, being the initial credit spread used in pricing the notes. Interest is payable on the Fixed Rate Reset Tier 2 Notes semi-annually in arrears on 4 March and 4 September each year.

E. FINANCIAL ASSETS & LIABILITIES continued

E5. Borrowings continued

E5.1 Analysis of borrowings continued

l. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £500 million 5.867% Tier 2 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £500 million 5.867% Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value as at the date of acquisition of £559 million. The fair value adjustment will be amortised over the remaining life of the notes. Interest is payable semi-annually in arrears on 13 June and 13 December.

m. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £250 million fixed rate reset callable Tier 2 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £250 million fixed rate reset callable Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value as at the date of acquisition of £275 million. The fair value adjustment will be amortised over the remaining life of the notes. The notes include an issuer par call right exercisable on 13 June 2024. Interest is payable semi-annually in arrears on 13 June and 13 December. These notes initially bear interest at a rate of 5.766% on the principal amount and the rate of interest will reset on 13 June 2024, and on each interest payment date thereafter, to a margin of 5.17% plus the yield of a UK Treasury Bill of similar term.

n. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £250 million 4.016% Tier 3 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £250 million 4.016% Tier 3 subordinated notes have a maturity date of 13 June 2026 and were initially recognised at their fair value as at the date of acquisition of £259 million. The fair value adjustment is being amortised over the remaining life of the notes. Interest is payable semi-annually in arrears on 13 June and 13 December.

o. The Group has in place a £1.25 billion unsecured revolving credit facility, maturing in June 2025. There are no mandatory or target amortisation payments associated with the facility but the facility does include customary mandatory prepayment obligations and voluntary prepayments are permissible. The facility accrues interest at a margin over LIBOR that is based on credit rating. The facility remains undrawn as at 31 December 2020.

E5.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes (with the exception of lease liabilities, which have been included in note G10). Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

		Cash movements		Non-cash movements				
	At 1 January 2020 £m	New borrowings, net of costs £m	Repayments £m	Acquisition of ReAssure £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[1] £m	At 31 December 2020 £m
Limited recourse bonds 2022 7.59%	35	–	(36)	–	–	–	1	–
Property Reversions loan	99	–	(19)	–	4	–	–	84
£200 million 7.25% unsecured subordinated loan	196	–	–	–	–	–	4	200
£300 million senior unsecured bond	121	–	–	–	–	–	1	122
£428 million Tier 2 subordinated notes	426	–	–	–	–	–	–	426
£450 million Tier 3 subordinated notes	449	–	–	–	–	–	–	449
US $500 million Tier 2 bonds	376	–	–	–	–	(12)	–	364
€500 million Tier 2 notes	417	–	–	–	–	24	1	442
US $750 million Contingent Convertible Tier 1 notes	–	566	–	–	–	(23)	2	545
£500 million Tier 2 notes	–	483	–	–	–	–	1	484
US $500 million Fixed Rate Reset Tier 2 notes	–	396	–	–	–	(32)	–	364
£500 million 5.867% Tier 2 subordinated notes	–	–	–	559	–	–	(3)	556
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	–	–	–	275	–	–	(3)	272
£250 million 4.016% Tier 3 subordinated notes	–	–	–	259	–	–	–	259
	2,119	1,445	(55)	1,093	4	(43)	4	4,567

	At 1 January 2019 £m	Cash movements: New borrowings, net of costs £m	Cash movements: Repayments £m	Non-cash movements: Changes in fair value £m	Non-cash movements: Movement in foreign exchange £m	Non-cash movements: Other movements[1] £m	At 31 December 2019 £m
Limited recourse bonds 2022 7.59%	45	–	(12)	–	–	2	35
Property Reversions loan	114	–	(22)	7	–	–	99
Retrocession contracts	13	–	–	(13)	–	–	–
£200 million 7.25% unsecured subordinated loan	186	–	–	–	–	10	196
£300 million senior unsecured bond	121	–	–	–	–	–	121
£1.25 billion revolving credit facility	–	100	(100)	–	–	–	–
£428 million subordinated notes	426	–	–	–	–	–	426
£450 million Tier 3 subordinated notes	448	–	–	–	–	1	449
US $500 million Tier 2 bonds	390	–	–	–	(14)	–	376
€500 million Tier 2 notes	443	–	–	–	(27)	1	417
	2,186	100	(134)	(6)	(41)	14	2,119

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost.

E6. Risk Management – Financial and Other Risks

This note forms one part of the risk management disclosures in the consolidated financial statements. An overview of the Group's approach to risk management is outlined in note I3 and the Group's management of insurance risk is detailed in note F4.

E6.1 Financial risk and the Asset Liability Management ('ALM') framework

The use of financial instruments naturally exposes the Group to the risks associated with them, chiefly market risk, credit risk and financial soundness risk.

Responsibility for agreeing the financial risk profile rests with the board of each life company, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the board of each life company will receive advice from the appointed investment managers, the relevant with-profit actuary and the relevant actuarial function holder as to the potential implications of that risk profile with regard to the probability of both realistic insolvency and of failing to meet the regulatory Minimum Capital Requirement. The Chief Actuary will also advise the extent to which the investment risk taken is consistent with the Group's commitment to deliver fair customer outcomes.

Derivatives are used in many of the Group's funds, within policy guidelines agreed by the board of each life company and overseen by investment committees of the boards of each life company supported by management oversight committees. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management, including the activities of the Group's Treasury function.

More detail on the Group's exposure to financial risk is provided in note E6.2 below.

The Group is also exposed to insurance risk arising from its Life business. Life insurance risk in the Group arises through its exposure to longevity, persistency, mortality and to other variances between assumed and actual experience. These variances can be in factors such as persistency levels and management, administrative expenses and new business pricing. More detail on the Group's exposure to insurance risk is provided in note F4.

The Group's overall exposure to market and credit risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, in line with the investment strategy developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Group's ALM framework relies on the matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with-profit business funds (which include all of the Group's participating business), non-linked non-profit funds and unit-linked funds.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – Financial and Other Risks continued

E6.2 Financial risk analysis

Transactions in financial instruments result in the Group assuming financial risks. These include credit risk, market risk and financial soundness risk. Each of these are described below, together with a summary of how the Group manages the risk, along with sensitivity analysis where appropriate. The sensitivity analysis does not take into account second order impacts of market movements, for example, where a market movement may give rise to potential indicators of impairment for the Group's intangible balances.

A Group-wide project is underway to enhance our approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's Risk Management Framework, which will meet the requirements of Supervisory Statement 3/19. The Group's disclosures in line with the Task Force for Climate-related Financial Disclosures (TCFD), including planned future activity across each of the TCFD focus areas, are outlined on page 67 of the Annual Report and Accounts.

E6.2.1 Credit risk

Credit risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet

There are two principal sources of credit risk for the Group:

- credit risk which results from direct investment activities, including investments in debt securities, derivatives counterparties, collective investment schemes, hedge funds and the placing of cash deposits; and
- credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, exposure from material suppliers and the lending of securities.

The amount disclosed in the statement of consolidated financial position in respect of all financial assets, together with rights secured under off balance sheet collateral arrangements, and excluding the minority interest in consolidated collective investment schemes and those assets that back policyholder liabilities, represents the Group's maximum exposure to credit risk.

The impact of non-government debt securities and, inter alia, the change in market credit spreads during the year is fully reflected in the values shown in these consolidated financial statements. Credit spreads are the excess of corporate bond yields over gilt yields to reflect the higher level of risk. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap rates.

There is an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds (where risks and rewards fall wholly to shareholders), non-profit funds and shareholders' funds.

The Group holds £23,799 million (2019: £10,800 million) of corporate bonds which are used to back annuity liabilities in non-profit funds. These annuity liabilities include an aggregate credit default provision of £1,156 million (2019: £583 million) to fund against the risk of default.

A 100bps widening of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in a decrease in the profit after tax in respect of a full financial year, and in equity, of £5 million (2019: £70 million).

A 100bps narrowing of credit spreads, with all other variables held constant and no change in assumed expected defaults, would result in an increase in the profit after tax in respect of a full financial year, and in equity, of £2 million (2019: £26 million).

Credit risk is managed by the monitoring of aggregate Group exposures to individual counterparties and by appropriate credit risk diversification. The Group manages the level of credit risk it accepts through credit risk tolerances. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is relying on shareholder support.

Credit quality of assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating.

2020	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	6	195	–	–	368	78	647
Derivatives	–	1,220	2,263	1,967	–	1,231	199	6,880
Debt securities[1,2]	9,041	35,184	24,747	14,960	2,497	6,658	16,368	109,455
Reinsurers' share of insurance contract liabilities	–	6,524	2,966	–	–	52	–	9,542
Reinsurers' share of investment contract liabilities	–	16	–	1	–	–	9,542	9,559
Cash and cash equivalents	30	1,728	7,049	173	–	10	2,008	10,998
	9,071	44,678	37,220	17,101	2,497	8,319	28,195	147,081

1 For financial assets that do not have credit ratings assigned by external ratings agencies, the Group assigns internal ratings for use in management and monitoring of credit risk. £117 million of AAA, £963 million of AA, £2,446 million of A, £1,741 million of BBB and £219 million of BB and below debt securities are internally rated. If a financial asset is neither rated by an external agency nor internally rated, it is classified as 'non-rated'.

2 Non-rated debt securities includes equity release mortgages with a value of £3,484 million (further details are set out in note E2.3) and non-rated bonds.

2019	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	21	47	164	–	284	–	516
Derivatives	–	11	2,194	1,484	–	759	6	4,454
Debt securities[1,2]	9,630	32,188	15,778	10,947	2,252	5,317	1	76,113
Reinsurers' share of insurance contract liabilities	–	5,913	1,366	–	–	45	–	7,324
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	8,881	8,881
Cash and cash equivalents	295	733	3,105	23	–	270	40	4,466
	9,925	38,866	22,490	12,618	2,252	6,675	8,928	101,754

1 For financial assets that do not have credit ratings assigned by external ratings agencies, the Group assigns internal ratings for use in management and monitoring credit risk. £51 million of AAA, £433 million of AA, £1,354 million of A, £272 million of BBB and £90 million of BB and below debt securities are internally rated. If a financial asset is neither rated by an external agency nor internally rated, it is classified as 'non-rated'.

2 Non-rated debt securities includes equity release mortgages with a value of £2,781 million (further details are set out in note E2.3) and non-rated bonds.

Credit ratings have not been disclosed in the above tables for the directly held assets of the unit-linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit-linked funds are assets which are held as reinsured external fund links. Under certain circumstances, the shareholder may be exposed to losses relating to the default of the reinsured external fund link.

Credit ratings have not been disclosed in the above tables for holdings in unconsolidated collective investment schemes and investments in associates. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

The Group maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly.

The Group operates an Internal Credit Rating Committee to perform oversight and monitoring of internal credit ratings for externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessments from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. The internal credit ratings used by the Group are provided by fund managers or for certain assets (in particular, equity release mortgages) determined by the Life Companies. The Committee reviews the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes

The risk of unexpected downgrades and defaults within the Group's credit risk portfolio is heightened as a result of market volatility and wider economic and social impacts arising from COVID-19. Throughout 2020, the Group took de-risking action to increase the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital.

The Group has increased exposure to illiquid credit assets such as equity release mortgages, private placements and commercial real estate loans) with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

E. FINANCIAL ASSETS & LIABILITIES continued
E6. Risk Management – Financial and Other Risks continued
E6.2 Financial risk analysis continued
E6.2.1 Credit risk continued

A further indicator of the quality of the Group's financial assets is the extent to which they are neither past due nor impaired. All of the amounts in the table above for the current and prior year are neither past due nor impaired.

Please refer to page 303 for additional life company asset disclosures which include the life companies' exposure to peripheral Eurozone debt securities. Peripheral Eurozone is defined as Portugal, Spain, Italy, Ireland and Greece. The Group's exposure to peripheral Eurozone debt continues to be relatively small compared to total assets. The additional life company asset disclosures also include the Group's market exposure analysed by credit rating for the shareholder debt portfolio.

Concentration of credit risk

Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life business and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements and the monitoring of aggregate counterparty exposures across the Group against additional Group counterparty limits. Counterparty risk in respect of OTC derivative counterparties is monitored using a Potential Future Exposure ('PFE') value metric.

The Group is also exposed to concentration risk with outsource partners. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured through stress and scenario testing.

Reinsurance

The Group is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. This also gives rise to concentration of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group manages its exposure to reinsurance credit risk through the operation of a credit policy, collateralisation where appropriate, and regular monitoring of exposures at the Reinsurance Management Committee.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained in respect of stock lending, certain reinsurance arrangements and to provide security against the daily mark to model value of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed, and performs an impairment valuation when impairment indicators exist and the asset is not fully secured (and is not carried at fair value). See note E4 for further information on collateral arrangements.

E6.2.2 Market risk

Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.

The Group is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with-profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges derived from the value of invested assets of the business.

The Group manages the levels of market risk that it accepts through the operation of a market risk policy and an approach to investment management that determines:

- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from and within benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

The potential for adverse market risk is heightened in 2020 due to the prolonged period of low interest rates and ongoing uncertainty regarding the external environment, particularly COVID-19. Details of how the Group has managed this heightened market risk are included on page 88 of the Risk Management section of the Annual Report.

Interest rate and inflation risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates on the value of interest-bearing assets and on the value of future guarantees provided under certain contracts of insurance. The paragraphs in this section also apply to inflation risk, but references to fixed rate assets and liabilities would be replaced with index-linked assets and liabilities.

Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-participating funds and supported participating funds. For unsupported participating business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the life companies of the Group maintain an appropriate mix of fixed and variable rate instruments according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

The sensitivity analysis for interest rate risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest rates at the reporting date result in a change in profit after tax and in equity. It takes into account the effect of such changes in market interest rates on all assets and liabilities that contribute to the Group's reported profit after tax and in equity. Changes in the value of the Group's holdings in swaptions as the result of time decay or changes to interest rate volatility are not captured in the sensitivity analysis.

With-profit business and non-participating business within the with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest securities and derivatives. For unsupported with-profit business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits dependent on the existence of policyholder guarantees. The contribution of unsupported participating business to the Group result is largely limited to the shareholders' share of the declared annual bonus. The contribution of the supported participating business to the Group result is determined by the shareholders' interest in any change in value in the capital advanced to the with-profit funds.

In the non-participating funds, policy liabilities' sensitivity to interest rates are matched primarily with debt securities and hedging if necessary to match duration, with the result that sensitivity to changes in interest rates is very low. The Group's exposure to interest rates principally arises from the Group's hedging strategy to protect the regulatory capital position, which results in an adverse impact on profit on an increase in interest rates.

An increase of 1% in interest rates, with all other variables held constant would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £287 million (2019: £114 million).

A decrease of 1% in interest rates, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £461 million (2019: £233 million).

The Group is exposed to inflation risk through certain contracts, such as annuities, which may provide for future benefits to be paid taking account of changes in the level of experienced and implied inflation, and also through the Group's cost base. The Group seeks to manage inflation risk within the ALM framework through the holding of derivatives, such as inflation swaps, or physical positions in relevant assets, such as index-linked gilts, where appropriate.

Equity and property risk

The Group has exposure to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities and property investments which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with-profit funds, unit-linked funds or equity release mortgages in the non-profit funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk, whilst the Group also has exposure to the value of guarantees provided to with-profit policyholders. In addition some equity investments are held in respect of shareholders' funds. For the non-profit fund property price risk from equity release mortgages is borne by the Group with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets where appropriate.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity (but excludes the impact on the Group's pension schemes).

A 10% decrease in equity prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £281 million (2019: £254 million).

A 10% increase in equity prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £263 million (2019: £200 million).

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – Financial and Other Risks continued

E6.2 Financial risk analysis continued

E6.2.2 Market risk continued

A 10% decrease in property prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £25 million (2019: £26 million).

A 10% increase in property prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £16 million (2019: £16 million).

The sensitivity to changes in equity prices is primarily driven by the Group's equity hedging arrangements over the value of future management charges that are linked to asset values.

Currency risk

With the exception of Standard Life business sold in Germany and the Republic of Ireland, some historic business written in the latter, and Ark Life domiciled in the Republic of Ireland, the Group's principal transactions are carried out in sterling. The assets for these books of business are generally held in the same currency denomination as their liabilities, therefore, any foreign currency mismatch is largely mitigated. Consequently, the foreign currency risk relating to this business mainly arises when the assets and liabilities are translated into sterling.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the non-UK earnings of UK companies.

Some of the Group's with-profit funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the investment committees of the boards of each life company. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks. Over the course of 2020 the Matching Adjustment Portfolios (MAPs) have increased investment in overseas investment grade credit (primarily US) again with the purpose of increasing returns whilst reducing overall risk through diversification. The currency risk arising from these investments is hedged back into sterling, therefore not increasing the Group's currency exposure.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2020, since unhedged exposure to foreign currency was relatively low (2019: not considered significant).

E6.2.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing capital management risk, tax risk and liquidity and funding risk.

Capital management risk is defined as the failure of the Group, or one of its separately regulated subsidiaries, to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Group has exposure to capital management risk through the requirements of the Solvency II capital regime, as implemented by the PRA, to calculate regulatory capital adequacy at a Group level. The Group's UK life subsidiaries have exposure to capital management risk through the Solvency II regulatory capital requirements mandated by the PRA at the solo level. The Group's approach to managing capital management risk is described in detail in note I3.

Tax risk is defined as the risk of financial failure, reputation damage, loss of earnings/value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting, understanding of tax legislation and disclosure of financial, taxation and regulatory information. Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. In addition, the Group has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Group has in place to manage those risks.

Liquidity risk is defined as failure to maintain adequate levels of financial resources to meet short-term obligations as they fall due. Funding risk relates to the potential inability to raise additional capital or liquidity when required in order to maintain the resilience of the balance sheet. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's subsidiaries have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. The Board of Phoenix Group Holdings plc has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the subsidiary company boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ('PPFM');
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Group's liquidity risk management strategy is based on a very low risk appetite of having insufficient liquid or tangible assets to meet financial obligations as they fall due and is supported by:

- Holding appropriate assets to meet liquidity buffers;
- Holding high quality liquid assets to support day to day operations;
- An effective stress testing framework to ensure survival horizons are met under different plausible scenarios;
- Effective liquidity portfolio management; and
- Liquidity risk contingency planning.

The Group's funding strategy aims to maintain the appropriate level of debt and equity in order to support the Group's acquisition ambitions, while maintaining sufficient headroom for hybrid capital under Solvency II rules.

Forecasts are prepared regularly to predict required liquidity levels over both the short and medium-term allowing management to respond appropriately to changes in circumstances. These forecasts incorporate an estimated view of the potential economic downturn that is anticipated to be experienced due to the impacts of COVID-19. Further details are included within the Viability Statement on page 90.

In extreme circumstances, the Group could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Group considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Group's own risk exposure.

The vast majority of the Group's derivative contracts are traded OTC and have a two-day collateral settlement period. The Group's derivative contracts are monitored daily, via an end-of-day valuation process, to assess the need for additional funds to cover margin or collateral calls.

Some of the Group's commercial property investments are held through collective investment schemes. The collective investment schemes have the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. This was invoked as a result of the market volatility experienced following the result of the referendum on membership of the European Union in 2016 in line with other firms across the industry. In March 2020, property collective investment schemes were suspended due to Material Valuation Uncertainty clauses being applied by independent property valuers immediately prior to the COVID-19 lockdown. In line with contractual terms, certain transactions, including transfers-out, surrenders and switches were not permitted while funds were in deferral. However, claims in respect of retirement transactions, policy maturities, deaths and regular maturities are deemed 'non-discretionary' and were paid based on available daily prices. All funds have since had suspensions lifted and no further restrictions apply.

Some of the Group's cash and cash equivalents are held through collective investment schemes. The collective investment schemes have the power, in an extreme stress, to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

The following table provides a maturity analysis showing the remaining contractual maturities of the Group's undiscounted financial liabilities and associated interest. Liabilities under insurance contract contractual maturities are included based on the estimated timing of the amounts recognised in the statement of consolidated financial position in accordance with the requirements of IFRS 4 *Insurance Contracts*:

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – Financial and Other Risks continued

E6.2 Financial risk analysis continued

E6.2.3 Financial soundness risk continued

2020	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	**20,027**	**32,703**	**81,177**	**–**	**133,907**
Investment contracts	**165,106**	**–**	**–**	**–**	**165,106**
Borrowings[1]	**551**	**1,661**	**3,145**	**84**	**5,441**
Deposits received from reinsurers[1]	**699**	**832**	**2,569**	**–**	**4,100**
Derivatives[1]	**274**	**526**	**224**	**–**	**1,024**
Net asset value attributable to unitholders	**3,791**	**–**	**–**	**–**	**3,791**
Obligations for repayment of collateral received	**5,205**	**–**	**–**	**–**	**5,205**
Reinsurance payables	**134**	**–**	**–**	**–**	**134**
Payables related to direct insurance contracts	**1,669**	**–**	**–**	**–**	**1,669**
Lease liabilities[1]	**12**	**36**	**84**	**–**	**132**
Accruals and deferred income	**509**	**4**	**8**	**–**	**521**
Other payables	**1,265**	**–**	**1**	**–**	**1,266**

2019	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	16,135	23,299	56,209	–	95,643
Investment contracts	120,773	–	–	–	120,773
Borrowings[1]	122	1,119	1,382	99	2,722
Deposits received from reinsurers[1]	463	907	2,886	–	4,256
Derivatives[1]	347	103	346	–	796
Net asset value attributable to unitholders	3,149	–	–	–	3,149
Obligations for repayment of collateral received	3,671	–	–	–	3,671
Reinsurance payables	101	–	–	–	101
Payables related to direct insurance contracts	890	–	–	–	890
Lease liabilities[1]	13	32	78	–	123
Accruals and deferred income	375	6	3	–	384
Other payables	1,002	16	25	–	1,043

1 These financial liabilities are disclosed at their undiscounted value and therefore differ from amounts included in the statement of consolidated financial position which discloses the discounted value.

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

A significant proportion of the Group's financial assets are held in gilts, cash, supranationals and investment grade securities which the Group considers sufficient to meet the liabilities as they fall due. The vast majority of these investments are readily realisable immediately since most of them are quoted in an active market.

E6.2.4 Strategic risk

Strategic risks threaten the achievement of the Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Group recognises that core strategic activity brings with it exposure to strategic risk. However, the Group seeks to proactively review, manage and control these exposures.

The Group's strategy and business plan are exposed to external events that could prevent or impact the achievement of the strategy; events relating to how the strategy and business plan are executed; and events that arise as a consequence of following the specific strategy chosen. The identification and assessment of strategic risks is an integrated part of the RMF. Strategic Risk should be considered in parallel with the Risk Universe as each of the risks within the Risk Universe can impact the Group's strategy.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Group's strategic ambitions.

E6.2.5 Operational risk

Operational risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. Operational risk arises due to failures in one or more of the following aspects of our business:

- indirect exposures through outsourcing service providers (OSPs) and suppliers;
- direct exposures through internal practices, actions or omissions;
- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Group's control; and
- negligence, mal-practice or failure of employees, or suppliers to follow good practice in delivering operational processes and practices.

It is accepted that it is neither possible, appropriate nor cost effective to eliminate operational risks from the business as operational risk is inherent in any operating environment particularly given the regulatory framework under which the Group operates. As such the Group will tolerate a degree of operational risk subject to appropriate and proportionate levels of control around the identification, management and reporting of such risks.

E6.2.6 Customer risk

Customer risk is the risk of reductions in earnings and/or value through inappropriate or poor customer treatment (including poor advice). It can arise as a result of:

- Customer Treatment: Failure to have a customer centric culture which drives appropriate behaviours and decisions leading to customer interactions and outcomes which meet or exceed reasonable customer and regulator expectations and which take account of potential customer vulnerability.
- Customer Transformation: The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Group's customer treatment risk appetites and regulatory requirements.
- Product and Propositions: Failure to design and/or manage products/propositions appropriately, or failure of the manufacturer to ensure that products/ propositions are distributed to the appropriate target market, perform as intended and in line with the expectations set.
- Sales and Distribution: Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes leading to reputational, financial and/or operational detriment.

Risk capital requirement for customer risk is assessed using the Group's PRA approved Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business. From a qualitative perspective, the customer risks for the Group are regularly reported to management oversight committees.

The Group's Conduct Risk Appetite, sets the boundaries within which the Group expect customer outcomes to be managed. In addition, the Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, consists of a set of outcomes, intents and standards for all staff to follow to ensure that we have embedded and effective controls in place across our business activities to detect where our customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE

F1. Liabilities Under Insurance Contracts

Classification of contracts

Contracts are classified as insurance contracts where the Group accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain event adversely affects the policyholder.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts or derivatives and accounted for as financial liabilities (see notes E1 and E3 respectively).

Some insurance and investment contracts contain a Discretionary Participation Feature ('DPF'). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risks. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are classified as financial instruments and are valued at fair value through profit or loss.

Insurance contracts and investment contracts with DPF

Insurance liabilities

Insurance contract liabilities for non-participating business, other than unit-linked insurance contracts, are calculated on the basis of current data and assumptions, using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for on individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

For unit-linked insurance contract liabilities the provision is based on the fund value, together with an allowance for any excess of future expenses over charges, where appropriate.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F1. Liabilities Under Insurance Contracts continued

For participating business, the liabilities under insurance contracts and investment contracts with DPF are calculated in accordance with the following methodology:

- liabilities to policyholders arising from the with-profit business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The With-Profit Benefit Reserve ('WPBR') for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method. The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities.

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally valued using a stochastic model.

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management ('PPFM').

Standard Life Assurance Limited ('SLAL'), a wholly owned subsidiary of the Group, includes the Heritage With Profits Fund ('HWPF'). In 2006, the Standard Life Assurance Company demutualised. The demutualisation was governed by its Scheme of Demutualisation ('the Scheme'). Under the Scheme substantially all of the assets and liabilities of the Standard Life Assurance Company were transferred to SLAL.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund ('SHF') or the Proprietary Business Fund ('PBF') of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme, such transfers are subject to certain constraints in order to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business in SLAL.

Under the realistic valuation, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the cost of future policy related liabilities (as a reduction where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to the cost of future policy related liabilities. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above for the HWPF:

- The value of participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts.
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to reduce the value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position

Present value of future profits on non-participating business in the with-profit funds

For UK with-profit life funds, an amount may be recognised for the present value of future profits ('PVFP') on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders, this amount is recognised as a reduction in the liability rather than as an intangible asset. This is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non-participating business to policyholders, the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the consolidated income statement (see note G2).

The value of the PVFP is determined in a manner consistent with realistic measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP. The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note F4.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy
At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged to the consolidated income statement.

The Group's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised in the consolidated income statement.

Consolidated income statement recognition

Gross premiums
In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Group are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Gross benefits and claims
Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in-force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance
Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Reinsurance ceded
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance providers. Reinsurers' share of insurance contract liabilities is dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recognised in the consolidated income statement. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments and are accounted for on a payable basis. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related payables are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as a charge within the consolidated income statement.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Gains or losses on purchasing reinsurance are recognised in the consolidated income statement at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

Reinsurance accepted
The Group accepts insurance risk under reinsurance contracts. Amounts paid to cedants at the inception of reinsurance contracts in respect of future profits on certain blocks of business are recognised as a reinsurance asset. Changes in the value of the reinsurance assets created from the acceptance of reinsurance are recognised as an expense in the consolidated income statement, consistent with the expected emergence of the economic benefits from the underlying blocks of business.

At each reporting date, the Group assesses whether there are any indications of impairment. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the asset with the estimate of the recoverable amount. When the recoverable amount is less than the carrying value, an impairment charge is recognised as an expense in the consolidated income statement. Reassurance assets are also considered in the liability adequacy test for each reporting period.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F1. Liabilities Under Insurance Contracts continued

The table below shows a summary of the liabilities under insurance contracts and the related reinsurers' share included within assets in the statement of consolidated financial position.

	Gross liabilities 2020 £m	Reinsurers' share 2020 £m	Gross liabilities 2019 £m	Reinsurers' share 2019 £m
Life assurance business:				
Insurance contracts	103,012	9,542	70,685	7,324
Investment contracts with DPF	30,895	–	24,958	–
	133,907	9,542	95,643	7,324
Amounts due for settlement after 12 months	113,880	8,546	79,508	6,532

	Gross liabilities 2020 £m	Reinsurers' share 2020 £m	Gross liabilities 2019 £m	Reinsurers' share 2019 £m
At 1 January	95,643	7,324	91,211	7,564
Premiums	4,706	796	4,038	556
Claims	(7,808)	(1,613)	(7,792)	(1,177)
Foreign exchange adjustments	851	4	(841)	(3)
Acquisition of ReAssure businesses (see note H2.1)	24,606	2,782	–	–
L&G Part VII transfer (see note H2.2)	9,558	–	–	–
Other changes in liabilities[1]	6,351	249	9,027	384
At 31 December	**133,907**	**9,542**	95,643	7,324

1 Other changes in liabilities principally comprise changes in economic and non-economic assumptions and experience. Other changes in liabilities in 2019 also included the recognition of an additional £44 million of policyholder liabilities on the crystallisation of obligations initially included within the FCA thematic reviews provision.

F2. Unallocated Surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profit business of the Group's life operations. For the Group's with-profit funds this represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts.

If the realistic value of liabilities to policyholders exceeds the value of the assets in the with-profit fund, the unallocated surplus is valued at £nil.

In relation to the HWPF, amounts are considered to be allocated to shareholders when they emerge as recourse cash flows within the HWPF.

- The unallocated surplus of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the realistic value and the IFRS accounting policy value of all assets and liabilities other than participating contract liabilities recognised in the HWPF.
- The recourse cash flows are recognised as they emerge as an addition to shareholders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

	2020 £m	2019 £m
At 1 January	1,367	1,358
Transfer from/(to) consolidated income statement	113	(84)
Acquisition of ReAssure businesses (see note H2.1)	136	–
L&G Part VII transfer (see note H2.2)	261	–
Foreign exchange movements	(109)	93
At 31 December	**1,768**	1,367

F3. Reinsurance

This section includes disclosures in relation to reinsurance. Further disclosures and accounting policies relating to reinsurance are included in note F1.

F3.1 Premiums ceded to reinsurers

Premiums ceded to reinsurers during the period were £796 million (2019: £556 million).

F3.2 Collateral arrangements

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to reinsurance transactions usually in the form of cash or marketable financial instruments.

Where the Group receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral for reinsurance transactions but not recognised in the statement of consolidated financial position amounts to £4,324 million (2019: £3,217 million).

Where the Group receives collateral on reinsurance transactions in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Deposits received from reinsurers'. Where there is interest payable on such collateral, it is recognised within 'Net expense under arrangements with reinsurers' (see note F3.3). The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2020 are set out below

	Reinsurance transactions	
	2020 £m	2019 £m
Financial assets	**427**	333
Financial liabilities	**427**	333

F3.3 Net expense under arrangements with reinsurers

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within the HWPF. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group. The amount recognised in the statement of consolidated financial position in respect of this deposit is £3.7 billion as at 31 December 2020 (31 December 2019: £3.9 billion). Interest is payable to the reinsurer on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included within net investment return in the consolidated income statement is equal to an equivalent amount recognised in net expense under arrangements with reinsurers.

	2020 £m	2019 £m
Interest payable on deposits from reinsurers	**(13)**	(33)
Premium adjustments	**(206)**	(241)
Net expense under arrangements with reinsurers	**(219)**	(274)

F4. Risk Management – Insurance Risk

This note forms one part of the risk management disclosures in the consolidated financial statements. An overview of the Group's approach to risk management is outlined in note I3 and the Group's management of financial and other risks is detailed in note E6.

Insurance risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Life businesses are exposed to the following elements of insurance risk:

Mortality	higher than expected death claims on assurance products or lower than expected improvements in mortality;
Longevity	lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality;
Morbidity	higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies;
Expenses	unexpected timing or value of expenses incurred;
Persistency	adverse movement in surrender rates, premium paying rates, premium indexation rates, cash withdrawal/drawdown rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates or the occurrence of a mass lapse event leading to losses; and
New business pricing	inappropriate pricing of new business that is not in line with the underlying risk factors for that business.

Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures for both individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. In addition to this, mortality, longevity and morbidity risks may in certain circumstances be mitigated by the use of reinsurance. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends, to a significant extent, on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance Risk continued

It is therefore necessary for the Directors of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

The Group's longevity risk exposures have increased as a result of the Bulk Purchase Annuity deals it has successfully acquired, however the vast majority of these exposures are reinsured to third parties. This longevity exposure has further been increased following the acquisition of the ReAssure businesses and also due to the fall in yields during the year.

Insurance risk and COVID—19

There is currently increased uncertainty around future demographic experience as a result of COVID-19 impacts, particularly mortality, longevity and persistency risk. Some allowance has been made in the valuation and capital calculations for the potential short term effects of COVID-19 on timing of cash flows relating to the insurance risks to which the Group is exposed. The impact over the longer term continues to be monitored on a regular basis however given the uncertainty no adjustments have been deemed necessary to date.

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix or future bonus rates. The most significant non economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £70 million (2019: £58 million).

An increase of 5% in assurance mortality, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £70 million (2019: £58 million).

A decrease of 5% in annuitant longevity, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £619 million (2019: £288 million).

An increase of 5% in annuitant longevity, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £627 million (2019: £298 million).

A decrease of 10% in lapse rates, with all other variables held constant, would result in a decrease in the profit after tax in respect of a full year, and a decrease in equity of £40 million (2019: £20 million).

An increase of 10% in lapse rates, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £44 million (2019: £20 million).

F4.1 Assumptions

For participating business which is with-profit business (insurance and investment contracts), the insurance contract liability is calculated on a realistic basis, adjusted to exclude the shareholders' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involved placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

The non-participating insurance contract liabilities are determined using either a net premium or gross premium valuation method.

The assumptions used to determine the liabilities, under these valuation methods are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. The principal assumptions are as follows:

Discount rates

The Group discounts participating and non-participating insurance contract liabilities at a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 10bps.

For certain non-participating insurance contract liabilities (e.g annuities), the Group makes a further explicit adjustment to the risk-free rate to reflect illiquidity in respect of the assets backing those liabilities.

Expense inflation

Expenses are assumed to increase at either the rate of increase in the Retail Price Index ('RPI'), or a rate derived from the UK inflation swaps curve, plus fixed margins in accordance with the various management service agreements ('MSAs') the Group has in place with outsource partners. For with-profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation or RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on company experience and published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis funds.

Withdrawal rates used in the valuation of with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis funds, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM and the value of guaranteed benefits.

Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with-profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions contracts include guaranteed annuity options. The total amount provided in the with-profit and non-profit funds in respect of the future costs of guaranteed annuity options are £2,590 million (2019: £1,986 million) and £131 million (2019: £109 million) respectively.

In common with other life companies in the UK which have written pension transfer and opt-out business, the Group has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in liabilities arising under insurance contracts. The total amount provided in the with-profit funds and non-profit funds in respect of the review and possible redress relating to pension policies, including associated costs, are £374 million (2019: £225 million) and £6 million (2019: £6 million) respectively.

With-profit deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

Demographic prudence margin

For non-participating insurance contract liabilities, the Group sets assumptions at management's best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis funds, the assumptions about future demographic trends represent 'best estimates'.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance Risk continued

F4.1 Assumptions continued

Assumption changes

During the year a number of changes were made to assumptions to reflect changes in expected experience or to reflect transition activity. The impact of material changes during the year was as follows:

	(Decrease)/ increase in insurance liabilities 2020 £m	(Decrease)/ increase in insurance liabilities 2019 £m
Change in longevity assumptions	**(369)**	(186)
Change in persistency assumptions	**6**	19
Change in mortality assumptions	**31**	17
Change in expenses assumptions	**(36)**	(68)

2020:

The £369 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and where applicable the most recent Continuous Mortality Investigation 2019 projection tables.

The £6 million and £31 million negative impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £36 million positive impact of changes in expense assumptions principally reflects synergies generated upon the completion of the Part VII transfer of the L&G Mature Savings business, partially offset by an increase in reserves in respect of expected costs associated with the delivery of the Group Target Operating Model for IT and Operations and updates to investment expense assumptions, principally reflecting changes to asset mix.

Factors related to the COVID-19 pandemic are expected to have impacted policyholder behaviour (including persistency) and demographic experience in the period and are likely to continue to do so in the future. The Group's results have been impacted during the period by adverse mortality experience on the protection business, but this has been offset by positive longevity experience on the annuity business. The impact over the longer-term continues to be monitored on a regular basis, however given the uncertainty no adjustments to assumptions as a result of the impacts of COVID-19 have been deemed necessary to date.

Following the 'second wave' of COVID-19 deaths at the end of 2020, the Group has recognised a short-term actuarial provision of £10 million in anticipation of excess deaths relative to valuation assumptions at 31 December 2020.

2019:

The £186 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and where applicable the most recent Continuous Mortality Investigation 2018 projection tables.

The £19 million and £17 million negative impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £68 million positive impact of changes in expense assumptions principally reflects updated expense assumptions for insurance contracts reflecting reduced future servicing costs as a result of transition activity.

F4.2 Managing product risk

The following sections give an assessment of the risks associated with the Group's main life assurance products and the ways in which the Group manages those risks.

	Gross[1]		Reinsurance	
2020	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	10,095	62	917	–
Deferred annuities – without guarantees	1,835	340	–	–
Immediate annuities	7,478	–	4,377	–
Unitised with-profit	14,375	28,210	–	–
Total pensions	33,783	28,612	5,294	–
Life:				
Immediate annuities	365	–	2	–
Unitised with-profit	9,869	1,210	–	–
Life with-profit	2,445	–	7	–
Total life	12,679	1,210	9	–
Other	1,348	–	212	–
Non-profit funds:				
Deferred annuities – with guarantees	636	–	–	–
Deferred annuities – without guarantees	1,966	–	(115)	–
Immediate annuities	35,641	–	2,459	–
Protection	3,012	–	1,713	–
Unit-linked	14,062	1,064	31	–
Other	(115)	9	(61)	–
	103,012	30,895	9,542	–

1 £7,883 million (2019: £5,320 million) of liabilities are subject to longevity swap arrangements.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance Risk continued

F4.2 Managing product risk continued

2019	Gross: Insurance contracts £m	Gross: Investment contracts with DPF £m	Reinsurance: Insurance contracts £m	Reinsurance: Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,468	63	924	–
Deferred annuities – without guarantees	1,133	–	–	–
Immediate annuities	7,178	–	4,580	–
Unitised with-profit	12,940	23,021	–	–
Total pensions	29,719	23,084	5,504	–
Life:				
Immediate annuities	173	–	4	–
Unitised with-profit	6,386	774	–	–
Life with-profit	2,171	–	4	–
Total life	8,730	774	8	–
Other	1,061	–	205	–
Non-profit funds:				
Deferred annuities – without guarantees	824	–	–	–
Immediate annuities	19,635	–	1,567	–
Protection	686	–	76	–
Unit-linked	10,182	1,083	33	–
Other	(152)	17	(69)	–
	70,685	24,958	7,324	–

With-profit fund (unitised and traditional)

The Group operates a number of with-profit funds in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-participating business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ('GAR').

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in the PPFM for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each with-profit fund. Compliance with the PPFM is reviewed annually and reported to the PRA, Financial Conduct Authority ('FCA') and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others. For the HWPF, under the Scheme, shareholders are entitled to receive certain defined cash flows arising on specified blocks of UK and Irish business.

Unitised and traditional with-profit policies are exposed to equivalent risks, the main difference being that unitised with-profit policies purchase notional units in a with-profit fund whereas traditional with-profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ('GCO') policies. In addition, certain unit prices in the HWPF are guaranteed not to decrease.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates (see note E6.2.2).

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business. In addition, the Group has in place longevity swaps that provide downside protection over longevity risk.

The pricing assumption for mortality risk is based on both historic internal information and externally-generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES

G1. Pension Schemes

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit pension schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contract liabilities and investment contract liabilities.

As required by IFRIC 14, IAS 19 – *'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, to the extent that the economic surplus (prior to the elimination of the insurance policies issued by Group entities) will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. The Group recognises a pension surplus on the basis that it is entitled to the surplus of each scheme in the event of a gradual settlement of the liabilities, due to its ability to order a winding up of the Trust.

Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the Scheme, a liability is recognised when the obligation arises. The net defined benefit asset/liability represents the economic surplus net of all adjustments noted above.

The Group determines the net interest expense or income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the opening net defined benefit asset/liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit asset/liability is analysed between the service cost, past service cost, curtailments and settlements (all recognised within administrative expenses in the consolidated income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the consolidated income statement), remeasurements of the net defined benefit asset/liability (recognised in other comprehensive income) and employer contributions.

This note describes the Group's four main staff pension schemes for its employees, the Pearl Group Staff Pension Scheme ('Pearl Scheme'), the PGL Pension Scheme, the Abbey Life Staff Pension Scheme ('Abbey Life Scheme') and the ReAssure Staff Pension Scheme ('ReAssure Scheme') and explains how the pension asset/liability is calculated.

An analysis of the defined benefit (liability)/asset for each pension scheme is set out in the table below and also includes the net pension liability in respect of the Group operated unfunded unapproved retirement benefit scheme ('ReAssure Private Retirement Trust'):

	2020 £m	2019 £m
Pearl Group Staff Pension Scheme		
Economic surplus	**527**	521
Adjustment for insurance policies eliminated on consolidation	**(596)**	–
Net economic (deficit)/surplus	**(69)**	521
Minimum funding requirement obligation	**–**	(24)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(185)**	(183)
Net pension scheme (liability)/asset	**(254)**	314
PGL Pension Scheme		
Economic surplus	**30**	37
Adjustment for amounts due to subsidiary eliminated on consolidation	**–**	13
Adjustment for insurance policies eliminated on consolidation	**(1,749)**	(1,687)
Net pension scheme liability	**(1,719)**	(1,637)
Abbey Life Staff Pension Scheme		
Net pension scheme liability	**(61)**	(75)
ReAssure Staff Pension Scheme		
Economic surplus	**16**	–
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(5)**	–
Net pension scheme asset	**11**	–
ReAssure Private Retirement Trust		
Net pension scheme liability[1]	**(2)**	–

1 The balance includes plan assets of £382,000 which are primarily held within equities.

The Pearl Scheme and the PGL Pension Scheme have both executed buy-in transactions with a Group life company and subsequently assets supporting the actuarial liabilities are recognised on a line by line basis within financial assets in the statement of consolidated financial position. Further details are included in notes G1.1 and G1.2 below.

Risks

The Group's defined benefit schemes typically expose the Group to a number of risks, the most significant of which are:

Asset volatility – the value of the schemes' assets will vary as market conditions change and as such is subject to considerable volatility. The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The majority of the assets are held within a liability driven investment strategy which is linked to the funding basis of the schemes (set with reference to government bond yields). As such, to the extent that movements in corporate bond yields are out of line with movements in government bond yields, volatility will arise.

Inflation risk – a significant proportion of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are held within a liability driven investment strategy which allows for movements in inflation, meaning that changes in inflation should not materially affect the surplus.

Life expectancy – the majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. For the Pearl and PGL schemes, this is partially offset by the buy in policies that move in line with the liabilities. These buy in policies are eliminated on consolidation (see sections G1.1 and G1.2 for further details).

Information on each of these schemes is set out below.

Guaranteed Minimum Pension ('GMP') Equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs needed to be equalised. In 2018, the Group undertook an initial assessment, and included an allowance for the potential cost of equalising GMP for the impact between males and females in its IAS 19 actuarial liabilities at 31 December 2018, pending further discussions with the scheme Trustees and the issuance of guidance as to how equalisation should be achieved. During the year, following a review of the current methodology and assumptions the allowance for the potential cost of equalising GMP has been updated and the resulting reductions in the defined benefit obligation of £26 million for the Pearl Scheme, £16 million for the PGL Scheme and £4 million for the Abbey Life Scheme have been recognised in other comprehensive income as an experience gain.

In 2018, the ReAssure Scheme made allowance for the estimated impact of GMP equalisation and a provision of 0.1% of the defined benefit obligation was made to allow for the cost of GMP equalisation. The methodology and assumptions used to calculate this impact remain appropriate as at 31 December 2020.

On 25 November 2020, the GMP equalisation ruling covering transfers out was released and this confirmed that pension schemes are required to equalise all transfers with 17 May 1990 to 5 April 1997 GMPs even if they were taken as far back as 1990. A further exercise was undertaken to estimate the additional costs of allowing for GMP equalisation on transfers out and during the year a further cost of £1 million for the Pearl Scheme and £1 million for the PGL Scheme was recognised as a past service cost in the consolidated income statement. No adjustments were required for either the Abbey Life Scheme or the ReAssure Scheme.

Impacts of COVID-19

The market volatility experienced as a result of COVID-19 has contributed towards the movement in the pension scheme IAS 19 valuations for the year ended 31 December 2020. Discount rates used to calculate the IAS 19 defined benefit obligations have fallen by 60bps since 31 December 2019 to 1.4% and this has resulted in a significant increase in the value of the defined benefit obligations at 31 December 2020. This impact has been partially offset in relation to the Pearl Scheme, the Abbey Scheme and the ReAssure Scheme by an increase in the fair value of the plan assets. Falling yields in the period have resulted in an increase to the value of government bonds and corporate bonds which form a substantial part of the plan assets for these Schemes. There is a similar offset in respect of the PGL Pension Scheme as the impact of the increase in the discount rate has been offset by an increase in the fair value of the collateral assets which primarily consist of government bonds.

G1.1 Pearl Group Staff Pension Scheme

Scheme details

The Pearl Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The Pearl Scheme is closed to new members, and has no active members.

Defined benefit scheme

The Pearl Scheme is established under, and governed by, the trust deeds and rules and has been funded by payment of contributions to a separately administered trust fund. A Group company, Pearl Group Holdings No.2 Limited ('PGH2'), is the principal employer of the Pearl Scheme. The principal employer meets the administration expenses of the Pearl Scheme. The Pearl Scheme is administered by a separate Trustee company, P.A.T. (Pensions) Limited, which is separate from the Company. The Trustee company is comprised of four representatives from the Group, three member nominated representatives and one independent trustee in accordance with the Trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally, pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the Scheme, a liability is recognised when the obligation arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2020, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

A triennial funding valuation of the Pearl Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £104 million, on the agreed technical provisions basis. The cash flows utilised in the IFRS valuation as at 31 December 2018 were updated to reflect the latest data available from the 30 June 2018 funding valuation. The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons. The funding basis of valuation is based on general principles of prudence whereas the accounting valuation is based on best estimates. Discount rates are gilt-based for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

Pension Scheme Commitment Agreement and buy-in

On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with PGH2 to complete a series of buy-ins that are scheduled to be executed by 31 December 2023. At the same time, the Pearl Scheme completed the first buy-in with Phoenix Life Limited ('PLL') covering 25% of the Scheme's pensioner in-payment and deferred member liabilities, transferring the associated risks of longevity improvement to PLL effective from 30 September 2020.

The Scheme transferred £731 million of plan assets to PLL which constituted the payment of £735 million of premium to PLL and was net of a £4 million payment by PLL to the scheme in respect of benefits for October and November 2020. The assets transferred to PLL are recognised in the relevant line within financial assets in the consolidated statement of financial position. The economic effect of the 'buy-in' transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is subsequently eliminated on consolidation. The value of this insurance policy at 30 September 2020 was £604 million and at 31 December 2020 was £596 million.

The Commitment Agreement replaced the 2012 Pensions Agreement, which had previously included provisions covering contribution payments, additional contributions payable should agreed funding targets not be met, share charge over certain Group entities and covenant tests. The main terms of the Commitment Agreement are outlined below.

The new agreement contains provisions under which payments by PGH2 to the Scheme are required in the event that the Group does not meet the minimum buy-in completion schedule. There are two different types of payments as follows:

- Gilts Deficit Recovery Contributions: These operate in a similar way to the security under the 2012 Pension Agreement. Contributions calculated as amounts required to reach full funding on a gilts-basis by 30 June 2027.
- Contingent Contributions: These represent a new form of security for the Trustee. The amount of these contributions is initially capped at £200 million, with the cap running off in line with completion of the buy-ins.

The new agreement also introduces a new form of security provided by PGH2 to the Trustee which will be in place until the final buy-in is completed. The share charges over certain Group entities have been replaced by a new surety bond arrangement. The Surety Bond has been written by two external third-party insurers, each providing £100 million of cover payable to the Scheme following any one of the following trigger events:

- Insolvency of the Company, PGH2, PGS, Standard Life Assurance Limited, PLL, or Phoenix Life Assurance Limited; and
- Failure to pay any contributions to the Scheme due under the terms of the Commitment Agreement.

The cover provided by the surety bonds will be reduced from £200 million to £100 million (in aggregate) once the completed aggregate buy-in proportion exceeds 75%. The agreements between the Trustee and the surety providers are backed by a guarantee and an indemnity from the Company, PGH2 and PGS to the surety providers to repay them in the event of a claim under the surety bond. A liability would only be recognised upon the occurrence of one of the above trigger events.

Contributions totalling £70 million were paid into the Pearl Scheme in 2020 (2019: £40 million). Following the signing of the new Commitment Agreement PGH2 paid the balance of the remaining contributions under the 2012 Pensions Agreement (£37 million) in addition to the monthly instalments paid up to this date. No further contributions are expected to be paid to the Pearl Scheme however, PGH2 will continue to meet the administrative and non-investment running expenses of the Scheme as set out in the schedule of contributions.

Following the revisions to the schedule of contributions, no additional liability has been recognised at 31 December 2020 (2019: £24 million), to reflect a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions (2019: £69 million) in accordance with the minimum funding requirement. At 31 December 2019, a deferred tax asset of £12 million was also recognised to reflect tax relief at a rate of 17% that was expected to be available on the contributions, once paid into the Scheme.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January	2,834	(2,313)	(183)	(24)	314
Interest income/(expense)	53	(45)	(4)	(1)	3
Past service cost	–	(1)	–	–	(1)
Included in profit or loss	53	(46)	(4)	(1)	2
Remeasurements:					
Return on plan assets excluding amounts included in interest income	198	–	–	–	198
Gain from changes in demographic assumptions	–	51	–	–	51
Loss from changes in financial assumptions	–	(205)	–	–	(205)
Experience gain	–	19	–	–	19
Change in provision for tax on economic surplus available as a refund	–	–	2	–	2
Change in minimum funding requirement obligation	–	–	–	25	25
Included in other comprehensive income	198	(135)	2	25	90
Employer's contributions	70	–	–	–	70
Income received from insurance policies	5	–	–	–	5
Benefit payments	(110)	110	–	–	–
Assets transferred as premium for Scheme buy-in	(735)	–	–	–	(735)
At 31 December	2,315	(2,384)	(185)	–	(254)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January	2,631	(2,182)	(157)	(37)	255
Interest income/(expense)	73	(60)	(4)	(1)	8
Included in profit or loss	73	(60)	(4)	(1)	8
Remeasurements:					
Return on plan assets excluding amounts included in interest income	202	–	–	–	202
Gain from changes in demographic assumptions	–	12	–	–	12
Loss from changes in financial assumptions	–	(206)	–	–	(206)
Experience gain	–	11	–	–	11
Change in provision for tax on economic surplus available as a refund	–	–	(22)	–	(22)
Change in minimum funding requirement obligation	–	–	–	14	14
Included in other comprehensive income	202	(183)	(22)	14	11
Employer's contributions	40	–	–	–	40
Benefit payments	(112)	112	–	–	–
At 31 December	2,834	(2,313)	(183)	(24)	314

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2020		2019	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Hedging portfolio	**1,505**	**(30)**	1,569	(18)
Fixed interest gilts	**50**	**–**	56	–
Other debt securities	**1,301**	**–**	1,329	–
Properties	**140**	**140**	266	266
Private equities	**5**	**5**	19	19
Hedge funds	**5**	**5**	6	6
Cash and other	**98**	**–**	111	–
Obligations for repayment of stock lending collateral received	**(789)**	**–**	(522)	–
Reported scheme assets	**2,315**	**120**	2,834	–
Add back:				
Insurance policies eliminated on consolidation	**596**	**596**	–	–
Economic value of assets	**2,911**	**716**	2,834	273

The Group ensures that the investment positions are managed within an Asset Liability Matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the Pearl Scheme. Within this framework an allocation of 37% of the scheme assets is invested in collateral for interest rate and inflation rate hedging where the intention is to hedge greater than 100% of the interest rate and inflation rate risk measured on a gilts-basis.

The Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 40% (2019: 40%); and
- Pensioners: 60% (2019: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2020 is 16 years (2019: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2020 **%**	2019 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**2.85**	2.90
Rate of increase for deferred pensions ('CPI')	**2.10**	2.20
Discount rate	**1.40**	2.00
Inflation – RPI	**2.90**	3.00
Inflation – CPI	**2.10**	2.20

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme's liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements from 1 January 2017 are based on amended CMI 2019 Core Projections (2019: CMI 2018 Core Projections) and a long-term rate of improvement of 1.70% (2019: 1.60%) per annum for males and 1.20% (2019: 1.30%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 30.1 years and 31.0 years for male and female members respectively (2019: 29.8 years and 32.2 years respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2020							
Assumptions	**Base**	**Discount rate**		**RPI**		**Life expectancy**	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**2,384**	**(95)**	**98**	**76**	**(87)**	**86**	**(86)**

2019							
Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	2,313	(85)	93	71	(65)	84	(84)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension asset recognised within the statement of consolidated financial position.

G1.2 PGL Pension Scheme

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

Scheme details

Defined contribution scheme

On 1 July 2020 the Group closed the defined contribution section of the PGL Scheme and ceased making contributions from this date. Contributions in the period to 1 July 2020 were £5 million (2019: £7 million).

Defined benefit scheme

The defined benefit section of the PGL Pension Scheme is a final salary arrangement which is closed to new entrants and to future accrual for active members.

The PGL Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd. The trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible the day to day administration of the benefits.

The valuation has been based on an assessment of the liabilities of the PGL Pension Scheme as at 31 December 2020, undertaken by independent qualified actuaries.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made.

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £246 million. The IFRS valuation cash flows have been updated to reflect the latest valuation data.

There are no further committed contributions to pay in respect of the defined benefit section of the Scheme.

Insurance policies with Group entities

In March 2019, the PGL Pension Scheme entered into a 'buy-in' agreement with PLL which covered the remaining pensioner and deferred members of the Scheme not covered by the first such agreement concluded in December 2016. The scheme transferred £1,115 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL. An adjustment of £13 million to the value of the premium was paid to PLL in 2020. The assets transferred to PLL are recognised in the relevant line within financial assets in the statement of consolidated financial position. As with the initial 'buy-in' transaction completed in December 2016, the economic effect of the transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy at the date of the buy-in was £670 million.

The value of the insurance policies with Group entities at 31 December 2020 is £1,749 million (2019: £1,687 million).

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	**54**	**(1,691)**	**(1,637)**
Interest income/(expense)	**1**	**(31)**	**(30)**
Administrative expenses	**(3)**	**–**	**(3)**
Past service cost	**–**	**(1)**	**(1)**
Included in profit or loss	**(2)**	**(32)**	**(34)**
Remeasurements:			
Return on plan assets excluding amounts included in interest income	**(4)**	**–**	**(4)**
Experience gains	**–**	**41**	**41**
Loss from changes in financial assumptions	**–**	**(154)**	**(154)**
Gain from changes in demographic assumptions	**–**	**7**	**7**
Included in other comprehensive income	**(4)**	**(106)**	**(110)**
Benefit payments	**(75)**	**75**	**–**
Income received from insurance policies	**75**	**–**	**75**
Assets transferred as premium for 2019 scheme buy-in	**(13)**	**–**	**(13)**
At 31 December	**35**	**(1,754)**	**(1,719)**

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January	1,157	(1,528)	(151)	(522)
Interest income/(expense)	10	(39)	(5)	(34)
Administrative expenses	(3)	–	–	(3)
Included in profit or loss	7	(39)	(5)	(37)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	10	–	–	10
Experience loss	–	(34)	–	(34)
Loss from changes in financial assumptions	–	(175)	–	(175)
Gain from changes in demographic assumptions	–	11	–	11
Change in provision for tax on economic surplus available as a refund	–	–	156	156
Included in other comprehensive income	10	(198)	156	(32)
Benefit payments	(74)	74	–	–
Income received from insurance policies	69	–	–	69
Assets transferred as premium for 2019 scheme buy-in	(1,115)			(1,115)
At 31 December	54	(1,691)	–	(1,637)

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.2 PGL Pension Scheme continued

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2020 Total £m	2020 Of which not quoted in an active market £m	2019 Total £m	2019 Of which not quoted in an active market £m
Cash and other	**35**	**–**	54	–
Reported scheme assets	**35**	**–**	54	–
Add back:				
Insurance policies eliminated on consolidation	**1,749**	**1,749**	1,687	1,687
Adjustment for amounts due to subsidiary eliminated on consolidation	**–**	**–**	(13)	–
Economic value of assets	**1,784**	**1,749**	1,728	1,687

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 36% (2019: 36%); and
- Pensioners: 64% (2019: 64%)

The weighted average duration of the defined benefit obligation at 31 December 2020 is 16 years (2019: 16 years).

Principal assumptions

The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2020 %	2019 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	**2.90**	3.00
Rate of increase for deferred pensions ('CPI')	**2.10**	2.20
Discount rate	**1.40**	2.00
Inflation – RPI	**2.90**	3.00
Inflation – CPI	**2.10**	2.20

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Pension Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with 86%/94% of S1PL base tables with future longevity improvements from 1 January 2017 based on modified CMI 2019 Core Projections (2019: CMI 2018 Core Projections) and a long-term rate of improvement of 1.70% (2019: 1.60%) per annum for males and 1.20% (2019: 1.30%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.4 years (2019: 28.3 years) and 29.3 years (2019: 29.6 years) for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,754	(67)	70	55	(53)	65	(65)

2019

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,691	(65)	67	53	(51)	63	(63)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G1.3 Abbey Life Staff Pension Scheme

Scheme details

On 30 June 2017, the Abbey Life Scheme was transferred from Abbey Life to Pearl Life Holdings Limited ('PeLHL'), a fellow subsidiary. PeLHL assumed the scheme covenant together with all obligations of the scheme following implementation of the transfer. The Abbey Life Scheme is a registered occupational pension scheme, set up under Trust, and legally separate from the employer PeLHL. The scheme is administered by Abbey Life Trust Securities Limited (the Trustee), a corporate trustee. There are three Trustee Directors, one of whom is nominated by the Abbey Life Scheme members and two of whom are appointed by PeLHL. The Trustee is responsible for administering the scheme in accordance with the Trust Deed and rules and pensions laws and regulations. The Abbey Life Scheme is closed to new entrants. The last active member ceased employment with the Group and consequently the Abbey Life Scheme no longer recognises a current service cost.

The valuation has been based on an assessment of the liabilities of the Abbey Life Scheme as at 31 December 2020 undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

The last funding valuation of the Abbey Life Scheme was carried out by a qualified actuary as at 31 March 2018 and showed a deficit of £98 million.

Following the completion of the triennial funding valuation a revised schedule of contributions was agreed effective from 19 November 2018, for PeLHL to pay the following amounts in respect of deficit contributions:

- fixed monthly contributions of £400,000 payable up to 30 June 2026;
- monthly contributions in respect of administration expenses of £85,640 payable up to 31 March 2019, then £100,000 payable up to 30 June 2028 increasing annually in line with the Retail Prices Index assumption; and
- annual payments of £4 million into the 2016 Charged Account by 31 July each year, with the next payment being made by 31 July 2019, and the last payment due by 31 July 2025.

The Charged Accounts are Escrow accounts which were created in 2010 to provide the Trustees with additional security in light of the funding deficit. The amounts held in the Charged Accounts do not form part of Abbey Life Scheme assets.

Under the terms of the 2013 Funding Agreement dated 28 June 2013, the funding position of the Abbey Life Scheme will be assessed as at 31 March 2021. A payment will be made from the 2013 Charged Account to the Abbey Life Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2013 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2013 Charged Account.

Under the terms of the 2016 Funding Agreement dated 23 June 2016, the funding position of the Abbey Life Scheme will be assessed as at 31 March 2027. A payment will be made from the 2016 Charged Account to the Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2016 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2016 Charged Account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.3 Abbey Life Staff Pension Scheme continued

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	**254**	**(329)**	**(75)**
Interest income/(expense)	5	(7)	(2)
Administrative expenses	(1)	–	(1)
Included in profit or loss	4	(7)	(3)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	28	–	28
Experience gain	–	8	8
Loss from changes in financial assumptions	–	(31)	(31)
Gain from changes in demographic assumptions	–	6	6
Included in other comprehensive income	28	(17)	11
Employer's contributions	6	–	6
Benefit payments	(12)	12	–
At 31 December	**280**	**(341)**	**(61)**

2019	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	233	(307)	(74)
Interest income/(expense)	6	(9)	(3)
Administrative expenses	(1)	–	(1)
Included in profit or loss	5	(9)	(4)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	26	–	26
Experience gain	–	2	2
Loss from changes in financial assumptions	–	(33)	(33)
Gain from changes in demographic assumptions	–	2	2
Included in other comprehensive income	26	(29)	(3)
Employer's contributions	6	–	6
Benefit payments	(16)	16	–
At 31 December	254	(329)	(75)

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2020 Total £m	2020 Of which not quoted in an active market £m	2019 Total £m	2019 Of which not quoted in an active market £m
Diversified income fund	**118**	**–**	105	–
Fixed interest government bonds	**70**	**–**	73	–
Corporate bonds	**86**	**–**	71	–
Derivatives	**2**	**2**	(10)	(10)
Cash and cash equivalents	**4**	**–**	15	–
Pension scheme assets	**280**	**2**	254	(10)

Derivative values above include interest rate and inflation rate swaps and foreign exchange forward contracts. The Abbey Life Scheme has hedged its inflation risk through an inflation swap. It is currently exposed to interest rate risk to the extent that the holdings in bonds are mismatched to the scheme liabilities. The long-term intention is to fully hedge this risk through an interest rate swap. Further key risks that will remain are longevity and credit spread exposures.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the Abbey Life Scheme's members as follows:

- Deferred scheme members: 49% (2019: 49%); and
- Pensioners: 51% (2019: 51%)

The weighted average duration of the defined benefit obligation at 31 December 2020 is 17 years (2019: 17 years).

Principal assumptions

The principal financial assumptions of the Abbey Life Scheme are set out in the table below:

	2020 %	2019 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**2.85**	2.90
Rate of increase for deferred pensions ('CPI' subject to caps)	**2.10**	2.20
Discount rate	**1.40**	2.00
Inflation – RPI	**2.90**	3.00
Inflation – CPI	**2.10**	2.20

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Abbey Life Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years, performed as part of the actuarial funding valuation as at 31 March 2018, using the SAPS S2 'Light' tables for males and for females based on year of use. Future longevity improvements are based on amended CMI 2019 Core Projections (2019: CMI 2018 Core Projections) and a long-term rate of improvement of 1.70% (2019: 1.60%) per annum for males and 1.20% (2019: 1.30%) per annum for females. Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.4 years and 26.5 years for male and female members respectively (2019: 25.7 years and 27.2 years respectively).

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.3 Abbey Life Staff Pension Scheme continued

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**341**	**(14)**	**15**	**10**	**(11)**	**13**	**(13)**

2019

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	329	(13)	14	10	(9)	12	(12)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G1.4 ReAssure Life Staff Pension Scheme

Scheme details

The ReAssure Scheme was consolidated within the Group financial statements following the acquisition of the ReAssure businesses on 22 July 2020 (see note H2.1). The ReAssure Scheme is a registered occupational pension scheme, set up under Trust, and legally separate from the employer ReAssure Midco Limited ('RML'). The scheme is administered by ReAssure Pension Trustees Limited, a corporate trustee. There are six Trustee Directors, two of whom are nominated by the ReAssure Scheme members and four of whom are appointed by RML. The Trustee is responsible for administering the scheme in accordance with the Trust Deed and rules and pensions laws and regulations. The ReAssure Scheme is closed to future accrual.

The valuation has been based on an assessment of the liabilities of the ReAssure Scheme as at 31 December 2020 undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

The last funding valuation of the ReAssure Scheme was carried out by a qualified actuary as at 31 December 2017 and showed a deficit of £59 million.

Following the completion of the last triennial funding valuation a Recovery Plan was agreed between the Trustee and the Group in order to make good the deficit. Under the Recovery Plan, a further £17 million was paid into a Custody Account in 2019 and no further amounts have since been paid. The amounts held in this account do not form part of the Scheme's plan assets and are instead included within financial assets in the statement of consolidated financial position.

The total amount held in the Custody Account will be assessed at future valuations and additional payments will be made by the Group if this is deemed insufficient to meet the balance of the funding shortfall as at 31 December 2025. If the assumptions documented in the Statement of Funding Principles are borne out in practice, the amount expected to be held in the Custody Account as at 31 December 2025 would be more than sufficient to remove any remaining deficit at 31 December 2025.

There were no contributions made in respect of current service for the current and prior years. The Group agrees to cover those expenses incurred by the ReAssure Scheme and the cost of the death-in-service benefits for those members of the scheme who are entitled only to those benefits. Payments of £1 million were made since 22 July 2020 to cover these costs.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January	–	–	–	–
Acquisition of ReAssure businesses (see note H2.1)	459	(424)	(12)	23
Interest income/(expense)	4	(4)	–	–
Administrative expenses	(1)	–	–	(1)
Included in profit or loss	3	(4)	–	(1)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	19	–	–	19
Experience gain	–	2	–	2
Loss from changes in financial assumptions	–	(25)	–	(25)
Loss from changes in demographic assumptions	–	(15)	–	(15)
Change in provision for tax on economic surplus available as a refund	–	–	7	7
Included in other comprehensive income	19	(38)	7	(12)
Employer's contributions	1	–	–	1
Benefit payments	(5)	5	–	–
At 31 December	477	(461)	(5)	11

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

2020	Total £m	Of which not quoted in an active market £m
Equities	56	–
Government bonds	121	–
Corporate bonds	181	–
Real Estate	41	–
Other Quoted Securities	70	–
Cash and cash equivalents	8	–
Pension scheme assets	477	–

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the ReAssure Scheme's members as follows:

- Deferred scheme members: 74%; and
- Pensioners: 26%.

The weighted average duration of the defined benefit obligation at 31 December 2020 is 21 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Pension Schemes continued

G1.4 ReAssure Life Staff Pension Scheme continued

Principal assumptions

The principal assumptions of the ReAssure Scheme are set out in the table below:

	2020 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**2.85**
Rate of increase for deferred pensions	**2.10**
Rate of increase in salaries	**3.10**
Discount rate	**1.40**
Inflation – RPI	**2.90**
Inflation – CPI	**2.10**

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the ReAssure Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

The mortality base table is based on the SAPS Series 2 light tables with a 96% multiplier for males and a 92% multiplier for females, with CMI 2014 projections in line with a 1.50% pa long term trend up to and including 2014. Improvements from 2015 onwards are in line with CMI 2019 projections with a long term trend of 1.5% pa and an initial addition to improvements parameter of 0.25% p.a.

Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 60 is 29.8 years and 31.4 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	**461**	**(25)**	**25**	**21**	**(21)**	**18**	**(18)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G2. Intangible Assets

Goodwill

Business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or when there is evidence of possible impairment. For impairment testing, goodwill is allocated to relevant cash generating units. Goodwill is impaired when the recoverable amount is less than the carrying value.

In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

Acquired in-force business

Insurance and investment contracts with DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as acquired in-force business. This acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

The value of acquired in-force business related to investment contracts without DPF is recognised at its fair value and is amortised on a diminishing balance basis.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

The acquired in-force business is allocated to relevant cash generating units for the purposes of impairment testing.

Customer relationships

The customer relationship intangible asset includes vesting pension premiums and is measured on initial recognition at cost. The cost of this intangible asset acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, the customer relationship intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible asset is amortised on a straight-line basis over its useful economic life and assessed for impairment whenever there is an indication that the recoverable amount of the intangible asset is less than its carrying value. The customer relationship intangible asset is allocated to relevant cash generating units for the purposes of impairment testing.

Present value of future profits on non-participating business in the with-profit fund

The present value of future profits ('PVFP') is determined in a manner consistent with the realistic measurement of insurance contract liabilities. The Group's accounting policy for PVFP is described in note F1.

Brands and other contractual arrangements

Brands and other contractual arrangements acquired in a business combination are recognised at fair value at the acquisition date, and measured on initial recognition at cost. Amortisation is calculated using the straight-line method to allocate the cost of brands and other contractual arrangements over their estimated useful lives. They are tested for impairment whenever there is evidence of possible impairment. For impairment testing, they are allocated to the relevant cash generating unit. Brands and other contractual arrangements are impaired when the recoverable amount is less than the carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G2. Intangible Assets continued

2020	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Present value of future profits £m	Brands and other £m	Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	**57**	**5,197**	**297**	**82**	**56**	**435**	**5,689**
Acquisition of ReAssure businesses (see note H2.1)	**–**	**1,831**	**–**	**–**	**–**	**–**	**1,831**
Reclassification to investment contract liabilities	**–**	**–**	**–**	**(82)**	**–**	**(82)**	**(82)**
At 31 December	**57**	**7,028**	**297**	**–**	**56**	**353**	**7,438**
Amortisation and impairment							
At 1 January	**–**	**(1,546)**	**(154)**	**–**	**(10)**	**(164)**	**(1,710)**
Amortisation charge for the year	**–**	**(469)**	**(14)**	**–**	**(4)**	**(18)**	**(487)**
At 31 December	**–**	**(2,015)**	**(168)**	**–**	**(14)**	**(182)**	**(2,197)**
Carrying amount at 31 December	**57**	**5,013**	**129**	**–**	**42**	**171**	**5,241**
Amount recoverable after 12 months	**57**	**4,457**	**115**	**–**	**10**	**125**	**4,639**

2019	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Present value of future profits £m	Brands and other £m	Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	57	5,197	297	12	56	365	5,619
Revaluation	–	–	–	70	–	70	70
At 31 December	57	5,197	297	82	56	435	5,689
Amortisation and impairment							
At 1 January	–	(1,164)	(139)	–	(5)	(144)	(1,308)
Amortisation charge for the year	–	(382)	(15)	–	(5)	(20)	(402)
At 31 December	–	(1,546)	(154)	–	(10)	(164)	(1,710)
Carrying amount at 31 December	57	3,651	143	82	46	271	3,979
Amount recoverable after 12 months	57	3,296	128	82	40	250	3,603

G2.1 Goodwill

The carrying value of goodwill has been tested for impairment at the year end. No impairment has been recognised as the value in use of this intangible continues to exceed its carrying value.

£47 million of goodwill is attributable to the Management Services segment including £8 million that arose on acquisition of Abbey Life. Value in use has been determined as the present value of certain future cash flows associated with this business. The cash flows used in this calculation have been valued using a risk adjusted discount rate of 9.2% (2019: 8.3%) and are consistent with those adopted by management in the Group's operating plan and, for the period 2026 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The underlying assumptions of these projections include management's best estimates with regards to longevity, persistency, mortality and morbidity.

The remaining £10 million relates to the goodwill recognised on the acquisition of AXA Wealth during 2016 and has been allocated to the UK Open segment. This represents the value of the workforce assumed and the potential for future value creation, which relates to the ability to invest in and grow the SunLife brand. Value in use has been determined as the present value of certain future cashflows associated with that business. The cash flows used in the calculation are consistent with those adopted by management in the Group's operating plan, and for the period 2026 and beyond, assume a zero growth rate. The underlying assumptions of these projections include market share, customer numbers, commission rates and expense inflation. The cashflows have been valued at a risk adjusted discount rate of 11% that makes prudent allowance for the risk that future cash flows may differ from that assumed.

Impairment tests have been performed using assumptions which management consider reasonable. Management does not believe that a reasonably foreseeable change in key assumptions would cause value in use to be materially lower than the carrying value.

G2.2 Acquired In-Force Business

Acquired in-force business on insurance contracts and investment contracts with DPF represents the difference between the fair value of the contractual rights under these contracts and the liability measured in accordance with the Group's accounting policies for such contracts. This intangible is being amortised in accordance with the run-off of the book of business.

Acquired in-force business on investment contracts without DPF is amortised in line with emergence of economic benefits.

Acquired in-force business of £1,831 million was recognised during the year upon acquisition of the ReAssure businesses (see note H2.1).

G2.3 Customer Relationships

The customer relationships intangible at 31 December 2020 relates to vesting pension premiums which captures the new business arising from policies in-force at the acquisition date, specifically top-ups made to existing policies and annuities vested from matured pension policies. The total value of this customer relationship intangible at acquisition was £297 million and has been allocated to the UK Heritage segment. This intangible is being amortised over a 20 year period, and had a remaining useful life as at 31 December 2020 of 8.9 years.

G2.4 Present value of future profits on non-participating business in the with-profit fund

The principal assumptions used to calculate the present value of future profits ('PVFP') are the same as those used in calculating the insurance contract liabilities given in note F4.1.

The PVFP held in intangibles represented future profits on specific blocks of business in the NPL with-profit fund that was partly attributable to the holders of the limited recourse bonds (see note E5). As a consequence, the value of future profits was not attributable solely to policyholders and the PVFP was therefore presented as a separate intangible asset.

Following the repayment of the limited recourse bonds during the year, the PVFP can be shown as fully attributable to policyholders and it has therefore been reclassified as investment contract liabilities.

G2.5 Other intangibles

Other intangibles include £20 million which was recognised at cost on acquisition of the AXA Wealth businesses and £36 million recognised at cost on acquisition of the Standard Life Assurance businesses.

The amount recognised in respect of AXA Wealth represents the value attributable to the SunLife brand as at 1 November 2016. The intangible asset was valued on a 'multi-period excess earnings' basis. Impairment testing was performed in a combined test with the AXA goodwill (see section G2.1). The value in use continues to exceed its carrying value.

This brand intangible is being amortised over a 10 year period.

The amount recognised in respect of the Standard Life Assurance businesses represents the value attributable to the Client Services and Proposition Agreement ('CSPA') with SLA plc and the Group's contractual rights to use the Standard Life brand. The CSPA formalises the Strategic Partnership between the two companies and establishes the contractual terms by which SLA plc will continue to market and distribute certain products that will be manufactured by Group companies.

This intangible was valued on a 'multi-period excess earnings' basis and was being amortised over a period of 15 years.

On 23 February 2021, the Group entered into an agreement with SLA plc to simplify the arrangements of the Strategic Partnership. As part of the changes, the CSPA entered into following the acquisition of the Standard Life Assurance businesses will be dissolved. As a consequence, the carrying value of the CSPA as at 31 December 2020 is expected to be recoverable within 12 months. Further details have been provided in Note I7.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G3. Property, plant and equipment

Owner-occupied property is stated at its revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. Owner-occupied property is depreciated over its estimated useful life, which is taken as 20 – 50 years. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

The right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the remaining lease term which is between 1 and 11 years.

Equipment consists primarily of computer equipment and fittings. Equipment is stated at historical cost less deprecation. Where acquired in a business combination, historical cost equates to the fair value at the acquisition date. Depreciation on equipment is charged to the consolidated income statement over its estimated useful life of between 2 and 15 years.

2020	Owner-occupied properties £m	Right-of-use assets – property £m	Right-of-use assets – equipment £m	Equipment £m	Total £m
Cost or valuation					
At 1 January 2020	**25**	**75**	**2**	**27**	**129**
Acquisition of ReAssure businesses (see note H2.1)	**8**	**3**	**–**	**4**	**15**
Additions	**–**	**–**	**–**	**23**	**23**
At 31 December 2020	**33**	**78**	**2**	**54**	**167**
Depreciation					
At 1 January 2020	**–**	**(11)**	**–**	**(9)**	**(20)**
Depreciation	**–**	**(12)**	**–**	**(16)**	**(28)**
At 31 December 2020	**–**	**(23)**	**–**	**(25)**	**(48)**
Carrying amount at 31 December 2020	**33**	**55**	**2**	**29**	**119**

2019	Owner-occupied properties £m	Right-of-use assets – property £m	Right-of-use assets – equipment £m	Equipment £m	Total £m
Cost or valuation					
At 1 January 2019	31	–	–	19	50
Transition to IFRS 16	–	75	2	–	77
At 1 January 2019 restated	31	75	2	19	127
Additions	2	–	–	8	10
Disposals	(1)	–	–	–	(1)
Reclassification to investment property	(7)	–	–	–	(7)
At 31 December 2019	25	75	2	27	129
Depreciation					
At 1 January 2019	–	–	–	(2)	(2)
Depreciation	–	(11)	–	(7)	(18)
At 31 December 2019	–	(11)	–	(9)	(20)
Carrying amount at 31 December 2019	25	64	2	18	109

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2020 on an open market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. The fair value measurement for the properties of £33 million (2019: £25 million) has been categorised as Level 3 based on the non-observable inputs to the valuation technique used. Unrealised gains for the current and prior years are £nil.

The fair value of the owner-occupied properties was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuations are the expected rental values per square foot and the capitalisation rates.

The fair value of the owner-occupied properties valuation would increase (decrease) if the expected rental values per square foot were to be higher (lower) and the capitalisation rates were to be lower (higher).

G4. Investment property

Investment property, including right of use assets, is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses arising from the change in fair value are recognised as income or an expense in the Statement of comprehensive income.

Investment property includes right-of-use assets, where the Group acts as lessee. Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where investment property is leased out by the Group, rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

	2020 £m	2019 £m
At 1 January	**5,943**	6,520
Acquisition of ReAssure businesses (see note H2.1)	**556**	–
L&G Part VII transfer (see note H2.2)	**1,221**	–
Additions	**157**	214
Improvements	**9**	5
Disposals	**(709)**	(722)
Reclassified from owner-occupied property	**–**	7
Remeasurement of right-of-use asset	**(1)**	(15)
Movement in foreign exchange	**4**	(11)
Losses on adjustments to fair value (recognised in consolidated income statement)	**(52)**	(55)
At 31 December	**7,128**	5,943
Unrealised losses on properties held at end of year	**(43)**	(124)

As at 31 December 2020, a property portfolio of £7,025 million (2019: £5,824 million) is held by the life companies in a mix of commercial sectors, spread geographically throughout the UK and Europe.

Investment properties also include £86 million (2019: £101 million) of property reversions arising from sales of the NPI Extra Income Plan (see note E5 for further details) and from the Group's interest in the residential property of policyholders who have previously entered into an Equity Release Income Plan ('ERIP') policy.

Certain investment properties held by the life companies possess a ground rent obligation which gives rise to both a right-of-use asset and a lease liability under IFRS 16. Under IAS 17, these leases were accounted for as finance leases. The right-of-use asset associated with the ground rent obligation is valued at fair value and is included within the total investment property valuation. The value of the ground rent right-of-use asset as at 31 December 2020 was £17 million (2019: £18 million). The remeasurement gives rise to a reduction of £1 million (2019: £15 million). There were no disposals of ground rent right-of-use assets during the period (2019: £47 million).

Commercial investment property is measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ('RICS') guidelines with expected income and capitalisation rate as the key non-observable inputs.

The NPI residential property reversions, an interest in customers' properties which the Group will realise upon their death, are valued using a DCF model based on the Group's proportion of the current open market value, and discounted for the expected lifetime of the policyholder derived from published mortality tables. The open market value is measured by independent local property surveyors having appropriate recognised professional qualifications with reference to the assumed condition of the property and local market conditions. The individual properties are valued triennially and indexed using regional house price indices to the year-end date. The discount rate is a risk-free rate appropriate for the duration of the asset, adjusted for the deferred possession rate of 3.7% (2019: 3.6%). Assumptions are also made in the valuation for future movements in property prices, based on a risk free rate. The residential property reversions have been substantially refinanced under the arrangements with Santander as described in note E5.

The ERIP residential property reversions, an interest in the residential property of policyholders who have previously entered into an ERIP policy and been provided with a lifetime annuity in return for the legal title to their property, are valued using unobservable inputs and management's best estimates. As the inward cash flows on these properties will not be received until the lifetime lease is no longer in force, which is usually upon the death of the policyholder, these interests are valued on a reversionary basis which is a discounted current open market value.

The open market values of the properties are independently revalued every two years by members of the Royal Institution of Chartered Surveyors and in the intervening period are adjusted by reference to the Nationwide Building Society regional indices of house prices. The discount period is based on the best estimates of the likely date the property will become available for sale and the discount rate applied is determined by the general partner as its best estimate of the appropriate discount rate. The mortality rates are projected using future mortality improvements from the CMI Mortality Projection Model. No explicit allowance is made for house price inflation in the year through to their realisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G4. Investment property continued

Therefore, the key assumptions used in the valuation of the reversionary interests are the interest discount rate and the mortality assumption. The interest discount rate was 5%.

During the year, the valuation of investment properties reflected the fall in market values that have been evidenced throughout the property sector in the first half of the year as a result of the impacts of COVID-19. A significant portion of the investment property valuations at 30 June 2020 included standard valuation uncertainty clauses from the independent RICS valuers, reflective of the increased uncertainty in determining fair values in the market environment. In the second half of the year, the uncertainty clauses were removed by the valuers. At 31 December 2020, updated valuations were obtained for the majority of investment properties and movements in fair values were compared to property indices to provide additional assurance that fair values had moved as expected during the period.

The fair value measurement of the investment properties has been categorised as Level 3 based on the inputs to the valuation techniques used. The following table shows the valuation techniques used in measuring the fair value of the investment properties, the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties:

Description	Valuation techniques	Significant non-observable inputs	**Weighted average 2020**	Weighted average 2019 restated
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	**£22.55**	£25.46
		Estimated rental value per hotel room[1]	**£8,689**	£8,894
		Estimated rental value per parking space	**£1,169**	£1,170
		Capitalisation rate	**5.26%**	5.15%

1 Comparative figure has been restated which has increased the estimated rental value per hotel room by £595.

The estimated fair value of commercial properties would increase (decrease) if:

- the expected income were to be higher (lower); or
- the capitalisation rate were to be lower (higher).

The estimated fair value of the NPI residential property reversions would increase (decrease) if:

- the deferred possession rate were to be lower (higher);
- the mortality rate were to be higher (lower).

The estimated fair value of the ERIP residential property reversions would increase (decrease) if:

- the discount rate were to be lower (higher);
- the mortality rate were to be higher (lower).

Direct operating expenses (offset against rental income in the consolidated income statement) in respect of investment properties that generated rental income during the year amounted to £13 million (2019: £22 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £1 million (2019: £1 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2020 £m	2019 £m
Not later than 1 year	**304**	259
Later than 1 year and not later than 5 years	**959**	850
Later than 5 years	**2,820**	2,654

G5. Other Receivables

Other receivables are recognised when due and measured on initial recognition at the fair value of the amount receivable. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest rate method.

	2020 £m	2019 £m
Investment broker balances	**362**	167
Cash collateral pledged and initial margins posted	**608**	538
Reimbursement assets (note G7)	**–**	15
Property related receivables	**139**	99
Deferred acquisition costs	**81**	34
Other debtors	**432**	380
	1,622	1,233
Amount recoverable after 12 months	**76**	20

G6. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are deducted from cash and cash equivalents for the purpose of the statement of consolidated cash flows.

	2020 £m	2019 restated £m
Bank and cash balances[1]	**6,355**	3,267
Short-term deposits (including notice accounts and term deposits)[1]	**4,643**	1,199
	10,998	4,466

1 Comparative figures have been restated to reclassify £561 million from short-term deposits to bank and cash balances.

Deposits are subject to a combination of fixed and variable interest rates. The carrying amounts approximate to fair value at the period end. Cash and cash equivalents in long-term business operations and consolidated collective investment schemes of £10,584 million (2019: £4,201 million) are primarily held for the benefit of policyholders and so are not generally available for use by the owners.

G7. Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision is recognised for onerous contracts when the expected benefits to be derived from the contracts are less than the related unavoidable costs. The unavoidable costs reflect the net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Where it is expected that a part of the expenditure required to settle a provision will be reimbursed by a third party the reimbursement is recognised when, and only when, it is virtually certain that the reimbursement will be received. This reimbursement shall be recognised as a separate asset within other receivables and will not exceed the amount of the provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7. Provisions continued

								Restructuring provisions				
2020	Leasehold properties £m	Staff related £m	Known incidents £m	PA(GI) provision £m	FCA thematic reviews provision £m	Input VAT recovery provision £m	Customer remediation for operational tax £m	Transition and Transformation provision £m	Transfer of policy administration provision £m	ReAssure provision £m	Other £m	Total £m
At 1 January	**4**	**16**	**32**	**7**	**6**	**7**	**3**	**159**	**59**	**–**	**35**	**328**
Acquisition of ReAssure businesses (see note H2.1)	2	–	–	–	17	–	6	–	–	11	2	38
L&G Part VII transfer (see note H2.2)	–	–	12	–	–	–	–	–	–	–	–	12
Additions in the year	6	1	11	–	1	8	3	–	12	7	19	68
Utilised during the year	–	–	(16)	(4)	(14)	–	–	(19)	(36)	(8)	(18)	(115)
Released during the year	(2)	–	(4)	(2)	(6)	–	–	(31)	–	(3)	(1)	(49)
At 31 December	**10**	**17**	**35**	**1**	**4**	**15**	**12**	**109**	**35**	**7**	**37**	**282**

Leasehold properties
The leasehold properties provision includes a £9 million (2019: £3 million) dilapidations provision in respect of obligations under leases and £1 million (2019: £1 million) in respect of the excess of lease rentals and other payments on properties that are currently vacant or are expected to become vacant, over the amounts to be recovered from subletting these properties.

Staff related
Staff related provisions include provisions for unfunded pensions of £13 million (2019: £13 million), and private medical and other insurance costs for former employees of £4 million (2019: £3 million).

Known incidents
The known incidents provision was created for historical data quality, administration systems problems and process deficiencies on the policy administration, financial reconciliations and operational finance aspects of business outsourced. These balances represent the best estimates of costs payable to customers. As at 1 January 2020, £3 million of the balance has been reclassified as a 'customer remediation for operational tax' provision and a further £7 million as an 'input VAT recovery provision, see notes below for further details. Additional information has been given below in respect of the significant balances within this provision.

On 7 September 2020, following completion of the Part VII transfer of the Legal & General business, a £12 million compensation provision was recognised in respect of amounts owed to customers due to various system and processing errors resulting in incorrect rules being applied to policies. There has been no movement in this provision since that date but it is expected to be fully utilised within one year.

The balance also includes a provision of £10 million (2019: £12 million) which reflects the Group's exposure in relation to a historical underpayment of guaranteed payments to certain pension customers as a result of a systems error. £2 million was utilised in the year and it is expected that the balance will be fully utilised within one year.

The remaining provisions of £13 million as at 31 December are expected to be utilised within one year.

PA(GI) provision
In 2015, PA(GI) Limited, a subsidiary of the Group, was subject to a Companies Court judgement that directed that PA(GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA(GI) until 2006. As a consequence, PA(GI) is liable for complaint handling and redress with regard to the complaints.

The PA(GI) provision of £1 million (2019: £7 million) represents the Group's best estimate of the likely future costs. Following the passing of the FCA deadline for submission of complaints the level of uncertainty with respect to the remaining exposure has reduced. At 31 December 2020, £nil (2019: £15 million) of reimbursement asset has been recognised in other receivables in connection with the Group's exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £11 million (2019: £10 million) have been received during the year.

FCA thematic reviews provision – SLAL

On 14 October 2016, the FCA published its thematic review of non-advised annuity sales. In its findings, the FCA identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA also identified other areas of possible concern, including in relation to the recording and maintenance of records of calls. The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised.

Standard Life Assurance Limited ('SLAL') was a participant in the thematic review of non-advised annuity sales issued by the FCA on 14 October 2016. On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of past practices in the area described above were assessed. As a result, it was determined appropriate to recognise a provision of £225 million in respect of SLAL on a fair value basis. The provision recognised the estimated costs associated with redress payable to customers, the costs of the review and other expenses. It did not make allowance for any financial penalties that may arise as a result of the completion of the FCA investigation as it was not possible to determine a reliable estimate in this regard.

The FCA's review has now completed and SLAL received a final notice in July 2019 which imposed a financial penalty on the entity of £31 million. This was subsequently settled in 2019. During the year, £3 million of the provision was utilised and the remaining £3 million provision was released.

Under the terms of the Standard Life Assurance acquisition, SLA plc provided the Company with a deed of indemnity, with a duration of up to four years from the date of the acquisition, in respect of certain liabilities arising out of the FCA-mandated, and SLA plc's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. To the extent that total costs post 31 August 2018 exceed £225 million, such amounts will be recoverable under the deed of indemnity and related caps up to a maximum of £155 million.

To the extent that total costs are less than £225 million, Old PGH is required to pay the balance to SLA plc, together with any interest that may have accrued on such sum, and subject to recovery of any lost tax relief on the £225 million. In light of the release from the thematic review provision in the year, a liability of £68 million (2019: £64 million) has been recognised within other payables at 31 December 2020 to reflect obligations to SLA plc in this regard.

FCA thematic reviews provision – ReAssure

On acquisition of the ReAssure businesses on 22 July 2020, £17 million of obligations were recognised on a fair value basis. In 2018, ReAssure Limited performed an internal thematic review and consequently recognised a provision in respect of charges for the attached benefits of paid-up policies. A provision for the remaining expected costs of £8 million was recognised on 22 July 2020 which has since been utilised during the year. A further £9 million was recognised in respect of ReAssure Life Limited ('RLL') to reflect the costs of voluntary remediation to customers of certain legacy products. During the year, £3 million of this provision was utilised, a further £3 million was released and there was an increase of £1 million, resulting in a balance at 31 December 2020 of £4 million.

Input VAT recovery provision

The provision of £15 million (2019: £7 million) reflects the potential outcome of on-going negotiations to agree a new VAT partial exemption method with HMRC in relation to the basis of the recovery of input VAT on the Transitional Services Arrangement with SLA plc. The provision is based upon a likely alternative basis for recovery and was increased by £8 million in the year to reflect input VAT recovered in the period. The provision is subject to uncertainty as the final VAT recovery percentage agreed with HMRC may change. It is currently expected that the provision will be utilised within one to two years.

Customer remediation for operational tax provision

The customer remediation for operational tax provision relates to tax penalties payable to HMRC following failure to notify certain customers of changes to their lifetime allowance usage. The Group is currently in discussion with HMRC in respect of these items and the provision represents the Group's best estimate of the likely future costs.

On acquisition of the ReAssure businesses on 22 July 2020, £6 million of obligations were recognised on a fair value basis and a further £3 million was recognised in respect of other life companies. The balance at 31 December 2020 of £12 million is expected to be utilised within three years.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7. Provisions continued

Restructuring provisions

Transfer of policy administration

A significant proportion of the Group's policy administration is outsourced to Diligenta Limited ('Diligenta'), a UK-based subsidiary of Tata Consultancy Services ('TCS'). Diligenta provide life and pension business process services to a large number of the Group's policyholders. During 2018, the Group announced its intention to move to a single outsourcer platform and as a result a further 2 million of the Group's legacy policies will be transferred to Diligenta by 31 December 2021.

An initial provision of £76 million was recognised in 2018 for the expected cost of the platform migration and for severance and other costs associated with exiting from the current arrangements. The migration elements of the provision are subject to limited uncertainty as a consequence of the signed agreements that are in place. There is a higher degree of uncertainty in relation to the severance and associated exit costs which will be impacted by the number of staff that ultimately transfer to Diligenta. During the year the provision was increased by £12 million, £36 million of the balance was utilised and the remaining £35 million is expected to be utilised within one year.

Transition and Transformation provision

Following the acquisition of the Standard Life Assurance businesses in August 2018, the Group established a transition and transformation programme which aims to deliver the integration of the Group's operating models via a series of phases. During 2019, the Group announced its intention to extend its strategic partnership with TCS to provide customer servicing, to develop a digital platform and for migration of existing Standard Life policies to this platform by 2022 which raised a valid expectation of the impacts in those likely to be affected. An initial provision of £159 million was established in 2019 and included migration costs, severance costs and other expenses. Migration costs payable to TCS are subject to limited uncertainty as they are fixed under the terms of the agreement entered into. The severance costs are subject to uncertainty and will be impacted by the number of staff that transfer to TCS, and the average salaries and number of years' service of those affected. During the year, £19 million of the provision has been utilised, £31 million released, and the remaining £109 million is expected to be utilised within three years.

ReAssure restructuring provision

On acquisition of the ReAssure businesses on 22 July 2020, an £11 million restructuring provision was recognised on a fair value basis and included severance costs for Legal & General employees following completion of the Part VII transfer. During the year, £8 million of the provision has been utilised and the remaining £3 million released.

An additional £7 million restructuring provision was established during the year in respect of the recently acquired Old Mutual Wealth Life Assurance entity to cover severance costs. The majority of this provision is expected to be utilised within one year.

Other provisions

Other provisions includes £6 million (2019: £10 million) of obligations arising under a gift voucher scheme operated by the SunLife business and a commission clawback provision which represents the expected future clawback of commission income earned by the SunLife business as a result of assumed lapses of policies or associated benefits. A further £23 million (2019: £23 million) is provided for in respect of indemnities and obligations arising under agreements entered into in association with corporate activity undertaken by the Group. The balance will be utilised within the next 12 months.

The remaining other provisions of £8 million (2019: £2 million) consist of a number of small balances all of which are less than £2 million in value.

The impact of discounting on all provisions during the year from either the passage of time or from a change in the discount rate is not material.

G8. Tax Assets and Liabilities

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	2020 £m	2019 £m
Current tax:		
Current tax receivable	263	75
Deferred tax:		
Deferred tax liabilities	(1,036)	(873)

Movement in deferred tax liabilities

2020	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Acquisition of ReAssure businesses £m	L&G Part VII transfer £m	Other movements £m	31 December £m
Trading losses	14	15	–	–	–	1	30
Capital losses	–	14	–	22	–	–	36
Expenses and deferred acquisition costs carried forward	20	(90)	–	102	10	–	42
Provisions and other temporary differences	32	(27)	–	124	–	–	129
Non refundable pension scheme surplus	(68)	(36)	(24)	–	–	–	(128)
Committed future pension contributions	12	(13)	1	–	–	–	–
Pension scheme deficit	14	1	(2)	–	–	–	13
Accelerated capital allowances	8	(1)	–	1	–	–	8
Intangibles	40	(3)	–	–	–	2	39
Acquired in-force business	(691)	123	–	(230)	–	–	(798)
Customer relationships	(33)	–	–	–	–	–	(33)
Unrealised gains	(199)	(65)	–	(72)	(28)	(1)	(365)
IFRS transitional adjustments	(24)	5	–	9	–	–	(10)
Other	2	2	–	(3)	–	–	1
	(873)	(75)	(25)	(47)	(18)	2	(1,036)

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G8. Tax Assets and Liabilities continued

2019	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	31 December £m
Trading losses	13	1	–	14
Expenses and deferred acquisition costs carried forward	50	(30)	–	20
Provisions and other temporary differences	9	23	–	32
Non refundable pension scheme surplus	(13)	2	(57)	(68)
Committed future pension contributions	18	(6)	–	12
Pension scheme deficit	13	–	1	14
Accelerated capital allowances	7	1	–	8
Intangibles	–	40	–	40
Acquired in-force business	(810)	119	–	(691)
Customer relationships	(37)	4	–	(33)
Unrealised gains	(60)	(139)	–	(199)
IFRS transitional adjustments	(32)	8	–	(24)
Other	(1)	3	–	2
	(843)	26	(56)	(873)

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, UK deferred tax assets and liabilities, where provided, are reflected at a rate of 19%.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Further details relating to the impact of the increase to the Corporation Tax Rate announced in the March 2021 Budget are detailed in Note I7.

	2020 £m	2019 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	52	30
Excess expenses and deferred acquisition costs	7	–
Intangibles	14	13
Deferred tax assets not recognised on capital losses[1]	42	2

1 These can only be recognised against future capital gains and have no expiry date.

There are two technical matters which are currently being discussed with HMRC in relation to the insurance business transfer from Legal and General Assurance Society where discussions are not sufficiently progressed at this stage for recognition of any tax benefit arising but where discussions could progress positively over the next financial year.

There is an ongoing tax dispute with HMRC in relation to the tax treatment of an asset formerly held by Guardian Assurance Limited (before the business was transferred to ReAssure Limited). The current tax liability includes an accrual for the total tax under dispute on the basis that there is sufficient risk that the tax treatment will not be accepted.

The Group in conjunction with a number of other companies has challenged HMRC's position on the corporation tax treatment of overseas portfolio dividends from companies resident in the EU ('EU dividends') using a Group Litigation Order ('GLO'). The issue relates to whether the UK tax rules, which taxed EU dividends received prior to 1 July 2009, was contrary to EU law given that dividends received from UK companies were exempt from tax. In 2009 UK tax law was changed with both overseas and UK dividends being treated as exempt from corporation tax.

In July 2018, the Supreme Court concluded in favour of the tax payer and a tax benefit of £13 million was recognised at the end of 2018 in relation to enhanced double tax relief claims which the Group is entitled to in accordance with the Court judgement. As a result of the insurance business transfer from Legal and General Assurance Society during the year, the tax refund for the benefit of the Group's with-profit and unit linked funds increased to £45 million (2019: £11 million) and £23 million (2019: £2 million) respectively. In the case of the with-profit funds there was an increase in unallocated surplus and for the unit linked funds there was a corresponding increase in investment contract liabilities as a result of the recognition of the tax asset.

In January 2020, HMRC issued a communication to taxpayers who are affected by the dividend GLO but are not direct participants of it, setting out HMRC's intended approach to settling enquiries into the amount of double tax relief available for statutory protective or other claims. In view of the large number of cases involved, HMRC are currently unable to offer a specific date by which they will be able to deal with the various claims outstanding.

Some companies of the Group were late joiners or not members of the GLO but have made statutory protective tax claims totalling circa £14 million for the benefit of unit linked life funds based on the Supreme Court decision. HMRC has challenged the validity of such claims and is currently considering further tax litigation in this area against other third parties. Due to the uncertainty around the potential success of the claims a tax asset has not been recognised in respect of these claims.

G9. Payables Related to Direct Insurance Contracts
Payables related to direct insurance contracts primarily include outstanding claims provisions. Outstanding claims under insurance and investment contracts with DPF are valued using a best estimate method under IFRS 4 Insurance Contracts. Outstanding claims under investment contracts without DPF are measured at full settlement value in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

	2020 £m	2019 £m
Payables related to direct insurance contracts	1,669	890
Amount due for settlement after 12 months	–	–

G10. Lease Liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. For ground rent leases, the incremental borrowing rate of investment funds holding the associated investment properties is used as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from, for example, rent reviews or from changes in the assessment of whether a termination option is reasonably certain not to be exercised. The Group has applied judgement to determine the lease term for some lease contracts with break clauses.

	2020 £m	2019 £m
At 1 January	84	158
Acquisition of ReAssure businesses (see note H2.1)	5	–
Leases incepted during the year	10	–
Termination of leases following the disposal of associated investment properties	–	(47)
Interest expense	4	3
Lease payments	(18)	(15)
Remeasurement of leases	(1)	(15)
At 31 December	84	84
Amount due within 12 months	11	11
Amount due after 12 months	73	73

The Group has elected not to apply the measurement requirements of IFRS 16 to its low value leases and as such costs of these leases are recognised on a straight-line basis within administrative expenses. The expense for the year was £1 million (2019: £1 million).

G11. Accruals and Deferred Income
This note analyses the Group's accruals and deferred income at the end of the year.

	2020 £m	2019 £m
Accruals	452	315
Deferred income	69	69
	521	384
Amount due for settlement after 12 months	12	9

G12. Other Payables
Other payables are recognised when due and are measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, these payables are measured at amortised cost using the effective interest rate method.

	2020 £m	2019 £m
Investment broker balances	746	616
Property related payables	37	35
Investment management fees	3	8
Amount due to SLA plc on deed of indemnity (see note G7)	68	64
Other payables	412	320
	1,266	1,043
Amount due for settlement after 12 months	1	42

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES
H1. Subsidiaries
Subsidiaries are consolidated from the date that effective control is obtained by the Group (see basis of consolidation in note A1) and are excluded from consolidation from the date they cease to be subsidiary undertakings. For subsidiaries disposed of during the year, any difference between the net proceeds, plus the fair value of any retained interest, and the carrying amount of the subsidiary including non-controlling interests, is recognised in the consolidated income statement.

The Group uses the acquisition method to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H1. Subsidiaries continued

Directly attributable acquisition costs are included within administrative expenses, except for acquisitions undertaken prior to 2010 when they are included within the cost of the acquisition. Costs directly related to the issuing of debt or equity securities are included within the initial carrying amount of debt or equity securities where these are not carried at fair value. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The Group has invested in a number of collective investment schemes such as Open-ended Investment Companies ('OEICs'), unit trusts, Société d'Investissement à Capital Variable ('SICAVs'), investment trusts and private equity funds. These invest mainly in equities, bonds, property and cash and cash equivalents. The Group's percentage ownership in these collective investment schemes can fluctuate according to the level of Group and third party participation in the structures.

When assessing control over collective investment schemes, the Group considers those factors described under the 'Basis of consolidation' in note A1. In particular, the Group considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Group has the practical ability to exercise them, requires the exercise of judgement. This assessment includes a qualitative consideration of the rights held by the Group that are attached to its holdings in the collective investment schemes, rights that arise from contractual arrangements between the Group and the entity or fund manager and the rights held by third parties. In addition, consideration is made of whether the Group has de facto power, for example, where third party investments in the collective investment schemes are widely dispersed.

Where Group companies are deemed to control such collective investment schemes they are consolidated in the Group financial statements, with the interests of external third parties recognised as a liability (see the accounting policy for 'Net asset value attributable to unitholders' in note E1 for further details).

Certain of the collective investment schemes have non-coterminous period ends and are consolidated on the basis of additional financial statements prepared to the period end.

H1.1 Significant restrictions

The ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local laws, regulations and solvency requirements.

Each UK life company and the Group must retain sufficient capital at all times to meet the regulatory capital requirements mandated by or otherwise agreed with the relevant national supervisory authority. Further information on the capital requirements applicable to Group entities are set out in the Capital Management note (I3). Under UK company law, dividends can only be paid if a UK company has distributable reserves sufficient to cover the dividend.

In addition, contractual requirements may place restrictions on the transfer of funds as follows:

- Pearl Life Holdings Limited ('PeLHL') is required to make payments of contributions into charged accounts on behalf of the Abbey Life Scheme. These amounts do not form part of the pension scheme assets and at 31 December 2020, PeLHL held £50 million (2019: £49 million) within debt securities and £13 million (2019: £7 million) within cash and cash equivalents in respect of these charged accounts. Further details of when these amounts may become payable to the pensions scheme are included in note G1.3.
- ReAssure Midco Limited ('RML') is required to make payments of contributions into a ring-fenced account on behalf of the ReAssure Staff Pension Scheme. These amounts do not form part of the pension scheme assets and at 31 December 2020, RML held £57 million within debt securities and £2 million within cash and cash equivalents in respect of this account. Further details of when these amounts may become payable to the pensions scheme are included in note G1.4.

The Pearl Pension Scheme funding agreement included certain covenants which restricted the transfer of funds within the Group. As detailed further in note G1.1, these covenants were terminated under the Commitment Agreement entered into with the Pearl Pension Scheme in November 2020.

H2. Acquisitions and Portfolio Transfers

H2.1 Acquisition of ReAssure businesses

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for total consideration of £3.1 billion. The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares ('the Acquisition Shares') to Swiss Re Group on 23 July 2020.

Pursuant to an agreement between Swiss Re Group and MS&AD Insurance Group Holdings ('MS&AD'), MS&AD transferred its entire shareholding in ReAssure Group plc prior to 22 July 2020 to the Swiss Re Group in consideration for the transfer of 144,877,304 of the Acquisition Shares at completion. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The table below summarises the fair value of identifiable assets acquired and liabilities assumed as at the date of acquisition.

	Notes	Fair value £m
Assets		
Acquired in-force business	G2	**1,831**
Pension scheme asset	G1	**23**
Property, plant and equipment	G3	**15**
Investment property	G4	**556**
Financial assets		**49,097**
Reinsurers' share of insurance contract liabilities	F1	**2,782**
Other insurance assets		**231**
Current tax		**27**
Prepayments and accrued income		**71**
Other receivables		**379**
Cash and cash equivalents		**286**
Total assets		**55,298**
Liabilities		
Pension scheme liabilities	G1	**2**
Liabilities under insurance contracts	F1	**24,606**
Investment contract liabilities		**24,516**
Unallocated surplus	F2	**136**
Borrowings	E5	**1,093**
Other financial liabilities		**581**
Provisions	G7	**38**
Deferred tax liabilities	G8	**47**
Reinsurance payables		**132**
Payables related to direct insurance contracts		**409**
Current tax		**86**
Lease liabilities	G10	**5**
Accruals and deferred income		**76**
Other payables		**87**
Total liabilities		**51,814**
Fair value of net assets acquired		**3,484**
Gain arising on acquisition		**(372)**
Purchase consideration transferred		**3,112**
Analysis of cash flows on acquisition:		
Net cash acquired with the subsidiaries (included in cash flow from investing activities)		**286**
Cash paid		**(1,265)**
Net cash flow on acquisition		**(979)**

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H2. Acquisitions and Portfolio Transfers continued

H2.1 Acquisition of ReAssure businesses continued

Acquired Value in-Force ('AVIF')

An asset of £1,831 million arises reflecting the present value of future profits associated with the acquired in-force business. The AVIF has been determined by reference to the fair value of insurance contract liabilities and investment contract rights acquired.

Under the Group's accounting policy (see note G2), AVIF arising on acquired insurance contracts and investment contracts with DPF is measured as the difference between the fair value of contracted rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts. AVIF relating to investment contracts without DPF is recognised at its fair value.

The valuation of the AVIF has been determined by reference to the assumptions expected to be applied by a market participant in an orderly transaction. The valuation approach uses present value techniques applied to the best estimate cash flows expected to arise from policies that were in-force at the acquisition date, adjusted to reflect the price of bearing the uncertainty inherent in those cash flows. This approach incorporates a number of judgments and assumptions which have impacted on the resultant valuation, the most significant of which include annuitant longevity, expected policy lapses and surrender costs, and the expenses associated with servicing the policies, together with economic assumptions such as future investment returns and the discount rate allowing for an appropriate illiquidity premium based on the assets existing at the balance sheet date. The determination of the majority of these assumptions is carried out on a consistent basis with that described in note F4.1 with appropriate adjustments to reflect a market participant's view. The risk adjustment for the uncertainty in the cashflows has been determined using a cost of capital approach.

Deferred acquisition costs of £483 million have been derecognised on acquisition and replaced as part of the AVIF balance.

Other receivables

The financial assets acquired include other receivables with a fair value of £379 million. The gross amount due under the contracts is £379 million, of which no balances are expected to be uncollectible.

Tax

The tax impact of the fair value adjustments recognised on acquisition has been reflected in the acquisition balance sheet.

Gain on acquisition

A gain on acquisition of £372 million has been recognised in the Group's consolidated income statement for the year ended 31 December 2020, reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the ReAssure businesses.

The consideration for the acquisition was fixed and determined using a 'locked box' pricing mechanism as agreed on 6 December 2019, with the number of consideration shares issued being determined on the basis of the Company's share price leading up to that date. As the result of a decline in the Company's share price between 6 December 2019 and the completion date, the value of the consideration shares issued was lower than the 'locked box' position. Over the same period, the fair value of the net assets acquired increased. This principally reflected the positive impact associated with a decline in yields on fixed interest assets backing capital requirements, management actions undertaken including hedging and strategic asset allocation activity, together with favourable demographic experience.

Additionally, in accordance with IFRS 3 Business Combinations, the acquired defined benefit pension schemes have been measured on acquisition in accordance with the Group's accounting policies as set out in note G1, as opposed to a fair value basis.

Transaction costs

Transaction costs of £37 million have been expensed and are included in administrative expenses in the consolidated income statement. All of these costs were paid during the year.

Impact of the acquisition on results

From the date of acquisition, the ReAssure businesses contributed £182 million of total revenue, net of reinsurance payable, and £108 million of the profit after the tax attributable to owners of the parent. If the acquisition of the ReAssure group of companies had taken place at the beginning of the year, total revenue net of reinsurance payable, would have been £4,930 million and the profit after the tax attributable to owners of the parent would have been £1,316 million.

H2.2 L&G Part VII Transfer

The Group applies the requirements of IFRS 3 *Business Combinations* to the acquisition of a business. IFRS 3 does not apply in circumstances where such an acquisition does not constitute a business, and is instead a portfolio of assets and liabilities, including insurance liabilities. In such cases, the Group's policy is to recognise and measure the assets acquired and insurance and other liabilities assumed in accordance with the Group's accounting policies for those assets and liabilities. The difference between the consideration and the net assets or liabilities acquired is recognised in the consolidated income statement.

On 6 December 2017, ReAssure Limited, a subsidiary of ReAssure Group plc, entered into an agreement to acquire the mature savings business of Legal and General Assurance Society ('LGAS'). The mature savings book consists of a block of unit linked and with-profit business, predominantly comprising traditional insurance based pensions, savings and protection products which are closed and in run-off. On that date, ReAssure Limited entered into a risk transfer agreement ('RTA') under which it assumed the risk and rewards associated with the business for cash consideration of £650 million. The RTA was in-force as at the date of the Group's acquisition of the ReAssure businesses.

On 7 September 2020, the Group completed a Part VII transfer of the mature savings liabilities and associated assets with LGAS, which resulted in the cancellation of the RTA. No further consideration was payable in respect of the Part VII transfer. This transfer was not deemed to be an acquisition of a business and consequently the requirements of IFRS 3 have not been applied.

The Part VII transfer directly resulted in an increase in net assets of £85 million, which included £110 million associated with reduced expense assumptions used for insurance contract liabilities arising upon migration of the business to the Group's operating model partially offset by the recognition of net liabilities transferred of £25 million. The gain arising upon the transfer has been recognised in the consolidated income statement.

The following table summarises the net liabilities transferred to the Group.

	Notes	£m
Assets		
Investment property	G4	**1,221**
Financial assets		**25,329**
Other insurance assets		**104**
Current tax		**59**
Prepayments and accrued income		**96**
Other receivables		**146**
Cash and cash equivalents		**146**
Total assets		**27,101**
Liabilities		
Liabilities under insurance contracts	F1	**9,668**
Investment contract liabilities		**16,818**
Unallocated surplus	F2	**261**
Other financial liabilities		**148**
Provisions	G7	**12**
Deferred tax	G8	**18**
Payables related to direct insurance contracts		**181**
Other payables		**20**
Total liabilities		**27,126**
Net liabilities transferred		**(25)**

H3. Associates: Investment in UK Commercial Property Trust Limited ('UKCPT')

UKCPT is a property investment company which is domiciled in Guernsey and is admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange.

The Group's interest in UKCPT is held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to fair value movements in the Group's investment in UKCPT is limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H3. Associates: Investment in UK Commercial Property Trust Limited ('UKCPT') continued

As at 31 December 2020, the Group held 44.6% (2019: 44.6%) of the issued share capital of UKCPT and the value of this investment, measured at fair value and included within financial assets, was £400 million (2019: £513 million). Management has concluded that the Group did not control UKCPT in either the current or comparative periods. The Group does not hold a unilateral power of veto in general meetings and voting is subject to certain restrictions in accordance with the terms of an existing relationship agreement it has with UKCPT.

Summary financial information (at 100%) for UKCPT is shown below:

	2020 £m	2019 £m
Non-current assets	**1,183**	1,309
Current assets	**170**	128
Non-current liabilities	**(198)**	(247)
Current liabilities	**(28)**	(23)
	1,127	1,167
Revenue	**65**	29
(Loss)/profit for the year after tax	**(10)**	2

H4. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group has determined that all of its investments in collective investment schemes are structured entities. In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Group has assessed that it has interests in both consolidated and unconsolidated structured entities as shown below:

- Unit trusts;
- OEICs;
- SICAVs;
- Private Equity Funds;
- Asset backed securities;
- Collateralised Debt Obligations ('CDOs');
- Other debt structures; and
- Phoenix Group EBT.

The Group's holdings in the investments listed above are susceptible to market price risk arising from uncertainties about future values. Holdings in investment funds are subject to the terms and conditions of the respective fund's prospectus and The Group holds redeemable shares or units in each of the funds. The funds are managed by internal and external fund managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by fund managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

H4.1 Interests in consolidated structured entities

The Group has determined that where it has control over funds, these investments are consolidated structured entities.

The EBT is a consolidated structured entity that holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

During the year, the Group granted further loans to the EBT of £7 million (2019: £4 million).

As at the reporting date, the Group has no intention to provide financial or other support to any other consolidated structured entity.

H4.2 Interests in unconsolidated structured entities

The Group has interests in unconsolidated structured entities. These investments are held as financial assets in the Group's consolidated statement of financial position held at fair value through profit or loss. Any change in fair value is included in the consolidated income statement in 'net investment income'. Dividend and interest income is received from these investments.

A summary of the Group's interest in unconsolidated structured entities is included below. These are shown according to the financial asset categorisation in the consolidated statement of financial position.

	2020 Carrying value of financial assets £m	2019 restated Carrying value of financial assets £m
Equities	**467**	528
Collective investment schemes	**89,248**	69,415
Debt securities[1]	**8,068**	6,991
	97,783	76,934

1 Comparative figures have been restated to include £2,817 million asset backed securities and £199 million infrastructure loans that have been classified as interests in structured entities.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the size of these structured entities are likely to be significantly higher than their carrying value.

Details of commitments to subscribe to private equity funds and other unlisted assets are included in note I5.

H5. Group Entities

The table below sets out the Group's subsidiaries (including consolidated collective investment schemes), associates and significant holdings in undertakings (including undertakings in which the holding amounts to 20% or more of the nominal value of the shares or units and they are not classified as a subsidiary or associate).

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Subsidiaries:				
Phoenix Life Limited (life assurance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Life Assurance Limited (life assurance company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Assurance Limited (life assurance company – directly owned by the Company)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life International Designated Activity Company (life assurance company – directly owned by the Company)	Dublin[6]		Ordinary Shares	100.00%
Standard Life Pension Funds Limited (life assurance company)	Edinburgh[26]		Limited by Guarantee	100.00%
ReAssure Limited (life assurance company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Life Limited (life assurance company)	Telford[41]		Ordinary Shares	100.00%
Ark Life Assurance Company DAC (life assurance company)	Dublin[50]		Ordinary Shares	100.00%
Pearl Group Management Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Services Limited (management services company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Assets and Employee Services Limited (management services company)	Edinburgh[26]		Ordinary Shares	100.00%
ReAssure Companies Services Limited (management services company)	Telford[41]		Ordinary Shares	100.00%
ReAssure UK Services Limited (management services company)	Telford[41]		Ordinary Shares	100.00%
ReAssure FSH UK Limited (holding company)	Telford[41]		Ordinary Shares	100.00%
Britannic Finance Limited (finance and insurance services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl Customer Care Limited (financial services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 1) Limited (finance company)	London[3]		Ordinary Shares	100.00%
Phoenix Customer Care Limited (financial services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER1 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER3 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER4 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER6 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
PGH Capital plc (finance company – directly owned by the Company)	Dublin[8]		Ordinary Shares	100.00%
PGMS (Ireland) Limited (management services company)	Dublin[7]		Ordinary Shares	100.00%
Phoenix SL Direct Limited (non-trading company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix Unit Trust Managers Limited (unit trust manager)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Wealth Services Limited (financial services company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Wealth Trustee Services Limited (trustee company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Lifetime Mortgages Limited (mortgage provider company)	Edinburgh[26]		Ordinary Shares	100.00%
The Standard Life Assurance Company of Europe B.V. (financial holding company)	Amsterdam[10]		Ordinary Shares	100.00%
Vebnet Limited (services company)	Wythall[2]		Ordinary Shares	100.00%
Axial Fundamental Strategies (US Investments) LLC (investment company)	Wilmington[18]		Limited Liability Company	100.00%
Britannic Money Investment Services Limited (investment advice company)[1]	Wythall[2]		Ordinary Shares	100.00%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Pearl (WP) Investments LLC (investment company)	Wilmington[18]		Limited Liability Company	100.00%
Pearl Assurance Group Holdings Limited (investment company)	Wythall[2]		Ordinary Shares	100.00%
PGMS (Glasgow) Limited (investment company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
PGS 2 Limited (investment company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV1 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV2 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV3 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix SPV4 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Standard Life Private Equity Trust plc (investment company)	Edinburgh[25]		Ordinary Shares	53.60%
CH Management Limited (investment company)	Delaware[19]		Ordinary Shares	100.00%
103 Wardour Street Retail Investment Company Limited (investment company)	Telford[41]		Ordinary Shares	100.00%
Abbey Life Assurance Company Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
Abbey Life Trust Securities Limited (pension trustee company)	Wythall[2]		Ordinary Shares	100.00%
Abbey Life Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Alba LAS Pensions Management Limited (dormant company)	Glasgow[11]		Ordinary Shares	100.00%
Alba Life Trustees Limited (non-trading company)	Edinburgh[26]		Ordinary Shares	100.00%
BA (FURBS) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
BL Telford Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
Britannic Group Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Century Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Cityfourinc (dormant company)	Wythall[2]		Unlimited with Shares	100.00%
Phoenix Advisers Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
G Assurance & Pensions Services Limited (non-trading company)	Telford[41]		Ordinary Shares	100.00%
G Life H Limited (holding company)	Telford[41]		Ordinary Shares	100.00%
G Financial Services Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
G Park Management Company Limited (property management company)	London[17]		Ordinary Shares	100.00%
G Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
Gallions Reach Shopping Park (Nominee) Limited (dormant company)	London[17]		Ordinary Shares	100.00%
Gresham Life Assurance Society Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
Iceni Nominees (No. 2) Limited (dormant company)	London[17]		Ordinary Shares	100.00%
IH (Jersey) Limited (dormant company)	Jersey[15]		Ordinary Shares	100.00%
Impala Holdings Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Impala Loan Company 1 Limited (dormant company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
Inesia SA (investment company)	Luxembourg[20]		Ordinary Shares	100.00%
Inhoco 3107 Limited (dormant company)	London[17]		Ordinary Shares	100.00%
London Life Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
London Life Trustees Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Namulas Pension Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
National Provident Institution (dormant company)	Wythall[2]		Unlimited without Shares	100.00%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
National Provident Life Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
NM Life Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
NM Pensions Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
Northampton General Partner Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
NP Life Holdings Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
NPI (Printworks) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
NPI (Westgate) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PA (GI) Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Barwell 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Chiswick House) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Covent Garden) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Martineau Phase 1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Martineau Phase 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House 1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pearl (Printworks) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Stockley Park) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl AL Limited (dormant company)	Glasgow[11]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 2) Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Group Secretariat Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Life Holdings Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Pearl MG Birmingham Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl MP Birmingham Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl RLG Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl Trustees Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl ULA Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Life Assurance Europe DAC (dormant company)	Dublin[9]		Ordinary Shares	100.00%
Phoenix Group Capital Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 4) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 5) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 6) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No. 7) Limited (dormant company)	London[3]		Ordinary Shares	100.00%
PGH (LC1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PGH (LC2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PGH (LCA) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (LCB) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (MC1) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (MC2) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PGH (TC1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PGH (TC2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
PGMS (Ireland) Holdings Unlimited Company (holding company)	Dublin[7]		Unlimited with Shares	100.00%
Phoenix & London Assurance Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix AW Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER2 Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER5 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Holdings (non-trading company)	Cayman Islands[5]		Private Company	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Phoenix Life Holdings Limited (holding company – directly owned by the Company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Pension Scheme (Trustees) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Pensions Trustee Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Pensions Trustees Limited (trustee company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix SCP Trustees Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
Phoenix Wealth Holdings Limited (holding company)[1]	Wythall[2]		Ordinary Shares	100.00%
Pilangen Logistik AB (investment company)	Stockholm[22]		Ordinary Shares	100.00%
Pilangen Logistik I AB (investment company)	Stockholm[22]		Ordinary Shares	100.00%
ReAssure FS Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Group plc (holding company – directly owned by the Company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Life Pension Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure LL Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Midco Limited (holding company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Nominees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Pension Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure PM Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Trustees Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure Two Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
ReAssure UK Life Assurance Company Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
Scottish Mutual Assurance Limited (dormant company)[1]	Edinburgh[26]		Ordinary Shares	100.00%
Scottish Mutual Nominees Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
Scottish Mutual Pension Funds Investment Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
SL (NEWCO) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SL Liverpool plc (dormant company)	Wythall[2]		Public Limited Company	100.00%
SLA Belgium No.1 SA (investment company)	Belgium[4]		Ordinary Shares	100.00%
SLA Denmark No.1 ApS (investment company)	Denmark[43]		Ordinary Shares	100.00%
SLA Denmark No.2 ApS (investment company)	Denmark[43]		Ordinary Shares	100.00%
SLA Germany No.1 S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
SLA Germany No.2 S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
SLA Germany No.3 S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
SLA Ireland No.1 S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
SLA Netherlands No.1 B.V. (investment company)	Amsterdam[10]		Ordinary Shares	100.00%
SLACOM (No. 8) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SLACOM (No. 9) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
SLACOM (No. 10) Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
ERIP Limited Partnership (Limited Partnership)	Telford[41]		Limited Partnership	100.00%
ERIP General Partner Limited (General Partner to ERIP Limited Partnership)	Telford[41]		Ordinary Shares	80.00%
SLIF Property Investment GP Limited (General Partner to SLIF Property Investment)	Edinburgh[25]		Ordinary Shares	100.00%
SLIF Property Investment LP	Edinburgh[25]		Limited Partnership	100.00%
Standard Life Agency Services Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Standard Life Assurance (HWPF) Luxembourg S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
Standard Life Investment Funds Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life Master Trust Co. Ltd (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Property Company Limited (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
Standard Life Trustee Company Limited (trustee company)	Edinburgh[26]		Ordinary Shares	100.00%
SunLife Limited (financial services distribution company)	Wythall[2]		Ordinary Shares	100.00%
The Heritable Securities and Mortgage Investment Association Ltd (dormant company)	Edinburgh[26]		Ordinary Shares	100.00%
The London Life Association Limited (dormant company)	Wythall[2]		Limited by Guarantee	100.00%
The Pathe Building Management Company Limited (dormant company)	Telford[41]		Ordinary Shares	100.00%
The Pearl Martineau Galleries Limited Partnership (dormant company)	Wythall[2]		Limited Partnership	100.00%
The Pearl Martineau Limited Partnership (dormant company)	Lynch Wood[21]		Limited Partnership	100.00%
The Phoenix Life SCP Institution (dormant company)	Edinburgh[26]		Limited by Guarantee	100.00%
The Scottish Mutual Assurance Society (dormant company)	Glasgow[11]		Limited by Guarantee	100.00%
Vebnet (Holdings) Limited (holding company)	Wythall[2]		Ordinary Shares	100.00%
Welbrent Property Investment Company Limited (dormant company)	London[17]		Ordinary Shares	100.00%
Pearl Private Equity LP	Edinburgh[25]		Limited Partnership	100.00%
Pearl Strategic Credit LP	Edinburgh[25]		Limited Partnership	100.00%
European Strategic Partners LP	Edinburgh[25]		Limited Partnership	72.70%
Phoenix Group Employee Benefit Trust	Jersey[16]		Trust	100.00%
3 St Andrew Square Apartments Limited (property management company)	Edinburgh[25]		Ordinary Shares	100.00%
330 Avenida de Aragon SL (property management company)	Madrid[34]		Ordinary Shares	100.00%
Janus Henderson Institutional Short Duration Bond Fund		London[28]	Unit Trust	100.00%
Janus Henderson Institutional Mainstream UK Equity Trust		London[28]	Unit Trust	100.00%
Janus Henderson Institutional UK Equity Tracker Trust		London[28]	Unit Trust	100.00%
Janus Henderson Institutional High Alpha UK Equity Fund		London[28]	Unit Trust	85.09%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[28]	OEIC, sub fund	98.92%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[28]	OEIC, sub fund	84.78%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[28]	OEIC, sub fund	84.39%
Janus Henderson Diversified Growth Fund		London[28]	OEIC, sub fund	72.64%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[28]	OEIC, sub fund	78.13%
PUTM European Unit Trust		Wythall[2]	Unit Trust	99.36%
PUTM Far Eastern Unit Trust		Wythall[2]	Unit Trust	99.67%
PUTM UK Stock Market Fund		Wythall[2]	Unit Trust	100.00%
PUTM UK Stock Market Fund (Series 3)		Wythall[2]	Unit Trust	100.00%
PUTM UK All-Share Index Unit Trust		Wythall[2]	Unit Trust	99.90%
PUTM UK Equity Unit Trust		Wythall[2]	Unit Trust	99.92%
PUTM Bothwell Asia Pacific (Excluding Japan) Fund		Wythall[2]	Unit Trust	99.51%
PUTM Bothwell Europe Fund		Wythall[2]	Unit Trust	99.01%
PUTM Bothwell Emerging Market Debt Unconstrained Fund		Wythall[2]	Unit Trust	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
PUTM Bothwell European Credit Fund		Wythall[2]	Unit Trust	80.97%
PUTM Bothwell Global Bond Fund		Wythall[2]	Unit Trust	99.97%
PUTM Bothwell Global Credit Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Floating Rate ABS Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Index-Linked Sterling Hedged Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Japan Tracker Fund		Wythall[2]	Unit Trust	99.57%
PUTM Bothwell Long Gilt Sterling Hedged Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Emerging Markets Equity Fund		Wythall[2]	Unit Trust	99.93%
PUTM Bothwell North America Fund		Wythall[2]	Unit Trust	99.39%
PUTM Bothwell Sterling Government Bond Fund		Wythall[2]	Unit Trust	99.57%
PUTM Bothwell Euro Sovereign Fund		Wythall[2]	Unit Trust	85.95%
PUTM Bothwell Sterling Credit Fund		Wythall[2]	Unit Trust	99.89%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Uk All Share Listed Equity Fund		Wythall[2]	Unit Trust	99.17%
PUTM ACS UK All Share Listed Equity Fund		Wythall[2]	Unit Trust	99.49%
PUTM Bothwell Uk Equity Income Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Sub-Sovereign A Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Short Duration Credit Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Ultra Short Duration Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Lothian North American Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Lothian European Ex UK Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Lothian UK Listed Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS European ex UK Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Japan Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS North American Fund		Wythall[2]	Unit Trust	100.00%
ASI (SLI) Strategic Bond Fund		Edinburgh[25]	Unit Trust	87.38%
Standard Life Multi Asset Trust		Edinburgh[25]	Unit Trust	100.00%
Standard Life European Trust II		Edinburgh[25]	Unit Trust	99.98%
ASI Emerging Markets Income Equity Fund		Edinburgh[25]	OEIC, sub fund	80.03%
ASI Emerging Markets Local Currency Bond Tracker Fund		London[17]	OEIC, sub fund	74.38%
ASI (SLI) Emerging Markets Equity Fund		Edinburgh[25]	OEIC, sub fund	96.56%
ASI Japanese Growth Equity Fund		Edinburgh[25]	OEIC, sub fund	95.36%
ASI Europe Europe ex UK Ethical Equity Fund		Edinburgh[25]	OEIC, sub fund	79.22%
Standard Life European Trust		Edinburgh[25]	Unit Trust	97.01%
Standard Life Japanese Trust		Edinburgh[25]	Unit Trust	79.79%
Standard Life North American Trust		Edinburgh[25]	Unit Trust	99.61%
Standard Life Pacific Trust		Edinburgh[25]	Unit Trust	98.17%
Standard Life Standard Life Short Dated UK Government Bond Trust		Edinburgh[25]	Unit Trust	99.96%
Standard Life Standard Life Global Equity Trust II		Edinburgh[25]	Unit Trust	100.00%
Standard Life UK Government Bond Trust		Edinburgh[25]	Unit Trust	100.00%
Standard Life UK Corporate Bond trust		Edinburgh[25]	Unit Trust	100.00%
Standard Life Standard Life Active Plus Bond Trust		Edinburgh[25]	Unit Trust	99.99%
Standard Life Standard Life International Trust		Edinburgh[25]	Unit Trust	99.98%
Standard Life UK Equity General Trust		Edinburgh[25]	Unit Trust	99.67%
ASI Short Dated Corporate Bond Fund		Edinburgh[25]	OEIC, sub fund	76.92%
ASI MyFolio Managed I Fund		Edinburgh[25]	OEIC, sub fund	73.75%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
ASI MyFolio Managed II Fund		Edinburgh[25]	OEIC, sub fund	71.94%
ASI MyFolio Managed III Fund		Edinburgh[25]	OEIC, sub fund	80.43%
ASI MyFolio Managed V Fund		Edinburgh[25]	OEIC, sub fund	72.96%
ASI Dynamic Multi Asset Growth		Edinburgh[25]	OEIC, sub fund	97.76%
ASI American Income Equity Fund		Edinburgh[25]	OEIC, sub fund	70.41%
Standard Life Investments Global SICAV II Global Short Duration Corporate Bond Fund		Luxembourg[29]	SICAV, sub fund	97.49%
Standard Life Investments Global SICAV Absolute Return Global Bond Strategies Fund		Luxembourg[29]	SICAV, sub fund	77.47%
Standard Life Investments Global SICAV Global Equities Fund		Luxembourg[29]	SICAV, sub fund	73.13%
Standard Life Investments Global SICAV European Government All Stocks Fund		Luxembourg[29]	SICAV, sub fund	99.99%
Standard Life Investments Global SICAV Japanese Equities Fund		Luxembourg[29]	SICAV, sub fund	97.01%
Standard Life Investments Global SICAV Global Bond Fund		Luxembourg[29]	SICAV, sub fund	93.53%
Standard Life Investments Global SICAV Global High Yield Bond Fund		Luxembourg[29]	SICAV, sub fund	86.09%
Standard Life Investments Global SICAV Global REIT Focus Fund		Luxembourg[29]	SICAV, sub fund	86.52%
Standard Life Investments Global SICAV China Equities Fund		Luxembourg[29]	SICAV, sub fund	76.48%
Standard Life Investments Global SICAV Global Emerging Markets Unconstrained Fund		Luxembourg[29]	SICAV, sub fund	99.86%
Standard Life Investments Global SICAV Global Emerging Markets Local CCY Debt Fund		Luxembourg[29]	SICAV, sub fund	89.62%
Standard Life Investments Global SICAV Emerging Market Debt Fund		Luxembourg[29]	SICAV, sub fund	93.71%
Standard Life Investments Global SICAV II Enhanced-Diversification Multi Asset Fund		Luxembourg[29]	SICAV, sub fund	79.41%
Standard Life Investments Global SICAV II – MyFolio Multi-Manager II Fund		Luxembourg[29]	SICAV, sub fund	72.54%
Standard Life Investments Global SICAV II – MyFolio Multi-Manager III Fund		Luxembourg[29]	SICAV, sub fund	55.87%
Standard Life Investments Global SICAV II – MyFolio Multi-Manager IV Fund		Luxembourg[29]	SICAV, sub fund	60.49%
Standard Life Investments Global SICAV II – MyFolio Multi-Manager V Fund		Luxembourg[29]	SICAV, sub fund	62.15%
Standard Life Investments Global SICAV – European Equities Fund		Luxembourg[29]	SICAV, sub fund	99.15%
Standard Life Investments Global SICAV – European Equity Unconstrained Fund		Luxembourg[29]	SICAV, sub fund	97.47%
Standard Life Managed Trust – American Equity Unconstrained		Edinburgh[25]	Unit Trust	76.42%
Standard Life Managed Trust – Standard Life Japan Fund		Edinburgh[25]	Unit Trust	79.20%
Standard Life Managed Trust – Standard Life Global REIT Fund		Edinburgh[25]	Unit Trust	82.95%
Standard Life Managed Trust – Standard Life Sterling Intermediate Credit Fund		Edinburgh[25]	Unit Trust	99.99%
Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 3 Fund		Dublin[27]	UCITS, sub fund	100.00%
Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund		Dublin[27]	UCITS, sub fund	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Aberdeen Standard Liquidity Fund (Lux) – Seabury Euro Liquidity 1 Fund		Dublin[27]	UCITS, sub fund	100.00%
Ignis Private Equity Fund LP		Cayman Islands[5]	Limited Partnership	100.00%
Ignis Strategic Credit Fund LP		Cayman Islands[5]	Limited Partnership	100.00%
ASI Phoenix Fund Financing SCSp (PLFF)		Luxembourg[32]	Special Limited Partnership	100.00%
North American Strategic Partners 2008 L.P.		Wilmington[18]	Limited Partnership	100.00%
North American Strategic Partners (Feeder) 2008 Limited Partnership		Wilmington[18]	Limited Partnership	100.00%
North American Strategic Partners (Feeder) 2006		Wilmington[18]	Limited Partnership	70.48%
North American Strategic Partners 2006 L.P.		Wilmington[18]	Limited Partnership	70.48%
Crawley Unit Trust		Jersey[12]	Unit Trust	100.00%
Ignis Strategic Solutions Funds plc – Fundamental Strategies Fund		Dublin[9]	OEIC, sub fund	100.00%
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund		Dublin[9]	OEIC, sub fund	100.00%
ASI Financial Equity Fund A Inc		London[17]	OEIC, sub fund	80.74%
ASI Phoenix Global Private Equity III LP		Edinburgh[25]	Limited Partnership	100.00%
Beresford Funds ICAV – Indexed Emerging Market Equity Fund		Dublin[48]	ICAV, sub fund	100.00%
HSBC Investment Funds – Balanced Fund		London[46]	OEIC, sub fund	76.68%
IFSL AMR Diversified Portfolio		Bolton[47]	OEIC, sub fund	79.42%
iShares 350 UK Equity Index Fund UK		London[37]	OEIC, sub fund	81.86%
Legal & General European Equity Income Fund		London[44]	Unit Trust	85.36%
Legal & General European Trust		London[44]	Unit Trust	72.62%
Legal & General Growth Trust		London[44]	Unit Trust	86.43%
Legal & General Real Capital Builder Fund		London[44]	Unit Trust	82.89%
Legal & General Real Income Builder Fund		London[44]	Unit Trust	89.41%
Quilter Investors Diversified Portfolio		London[49]	OEIC, sub fund	91.74%
Quilter Investors High Yield Bond Fund		London[49]	OEIC, sub fund	89.74%
Quilter Investors UK Equity Large-Cap Value Fund		London[49]	OEIC, sub fund	95.94%
Associates:				
UK Commercial Property Estates Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property GP Limited	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property Holdings Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property Nominee Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.59%
Moor House General Partner Limited	London[14]		Limited Partnership	33.30%
UK Commercial Property REIT Limited	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property Estates Holdings Limited (property investment company)	Guernsey[13]		Ordinary Shares	44.59%
UKCPT Limited Partnership	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property Finance Holdings Limited	Guernsey[13]		Ordinary Shares	44.59%
UK Commercial Property Estates (Reading) Limited	London[17]		Ordinary Shares	44.59%
Brixton Radlett Property Limited	London[17]		Ordinary Shares	44.59%
Significant holdings:				
Janus Henderson Institutional Global Responsible Managed Fund		London[28]	OEIC, sub fund	45.78%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Janus Henderson Institutional UK Index Opportunities Fund		London[28]	OEIC, sub fund	58.78%
Standard Life Capital Infrastructure I LP		Edinburgh[25]	Limited Partnership	26.30%
ASI (SLI) Corporate Bond Fund		Edinburgh[25]	OEIC, sub fund	41.70%
ASI Dynamic Distribution Fund		Edinburgh[25]	Unit Trust	57.50%
Standard Life Investments UK Real Estate Accumulation Feeder Fund		Edinburgh[25]	Unit Trust	60.47%
Standard Life UK Investments Real Estate Income Feeder Fund		London[17]	Unit Trust	46.04%
ASI UK High Income Equity Fund		Edinburgh[25]	OEIC, sub fund	52.78%
ASI Global Unconstrained Equity Fund		Edinburgh[25]	OEIC, sub fund	47.92%
ASI High Yield Bond Fund		Edinburgh[25]	OEIC, sub fund	39.65%
ASI UK Opportunities Equity Fund		Edinburgh[25]	OEIC, sub fund	54.79%
ASI Investment Grade Corporate Bond Fund		Edinburgh[25]	OEIC, sub fund	31.89%
ASI UK Smaller Companies Fund		Edinburgh[25]	OEIC, sub fund	32.23%
ASI Europe ex UK Growth Equity Fund		Edinburgh[25]	OEIC, sub fund	26.67%
ASI Short Duration Global Inflation-Linked Bond Fund		Edinburgh[25]	OEIC, sub fund	46.83%
ASI UK Unconstrained Equity Fund		Edinburgh[25]	OEIC, sub fund	54.28%
ASI Ethical Corporate Bond Fund		Edinburgh[25]	OEIC, sub fund	62.89%
ASI Global Real Estate Share Fund		Edinburgh[25]	OEIC, sub fund	38.01%
ASI Global Real Estate Fund		Edinburgh[25]	Unit Trust	45.70%
ASI MyFolio Market I Fund		Edinburgh[25]	OEIC, sub fund	44.78%
ASI MyFolio Market II Fund		Edinburgh[25]	OEIC, sub fund	43.91%
ASI MyFolio Market III Fund		Edinburgh[25]	OEIC, sub fund	55.18%
ASI MyFolio Market IV Fund		Edinburgh[25]	OEIC, sub fund	54.07%
ASI MyFolio Market V Fund		Edinburgh[25]	OEIC, sub fund	61.41%
ASI MyFolio Multi-Manager I Fund		Edinburgh[25]	OEIC, sub fund	52.31%
ASI MyFolio Multi-Manager II Fund		Edinburgh[25]	OEIC, sub fund	53.28%
ASI MyFolio Multi-Manager III Fund		Edinburgh[25]	OEIC, sub fund	62.45%
ASI MyFolio Multi-Manager IV Fund		Edinburgh[25]	OEIC, sub fund	57.75%
ASI MyFolio Multi-Manager V Fund		Edinburgh[25]	OEIC, sub fund	59.69%
ASI MyFolio Managed IV Fund		Edinburgh[25]	OEIC, sub fund	66.13%
Standard Life Investments Global SICAV Euro Smaller Companies Fund		Luxembourg[29]	SICAV, sub fund	25.49%
Standard Life Investments Global SICAV European Corporate Bond Fund		Luxembourg[29]	SICAV, sub fund	31.52%
Standard Life Investments Global SICAV Global Absolute Return Strategies Fund		Luxembourg[29]	SICAV, sub fund	43.36%
Standard Life Investments Global SICAV Global Corporate Bond Fund		Luxembourg[29]	SICAV, sub fund	73.16%
Aberdeen Standard Liquidity Fund (Lux) Euro Fund		Luxembourg[33]	UCITS, sub fund	43.54%
ASI Global Absolute Return Strategies Retail Acc		Edinburgh[25]	OEIC, sub fund	66.76%
ASI Europe ex UK Income Equity Fund		Edinburgh[25]	OEIC, sub fund	23.28%
ASI UK Income Unconstrained Equity Fund		Edinburgh[25]	OEIC, sub fund	47.52%
Brent Cross Partnership		London[14]	Limited Partnership	24.16%
Castlepoint LP		Birmingham[36]	Ordinary Shares	34.81%
Gallions Reach Shopping Park Unit Trust		Jersey[12]	Unit Trust	78.30%
Standard Life Investments UK Retail Park Trust		Jersey[35]	Unit Trust	56.60%
Standard Life Investments UK Shopping Centre Trust		Jersey[35]	Unit Trust	40.67%
Gallions Reach Shopping Park Limited Partnership		London[17]	Unit Trust	78.30%
Standard Life Investments Brent Cross LP		Edinburgh[25]	Limited Partnership	40.67%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund		London[30]	UCITS, sub fund	51.35%
AB SICAV I – Diversified Yield Plus Portfolio		Luxembourg[29]	SICAV, sub fund	38.65%
MI Somerset Global Emerging Markets		Essex[31]	OEIC, sub fund	43.66%
BlackRock Market Advantage X		London[37]	UCITS, sub fund	49.35%
ASI Emerging Markets Equity Enhanced Index Fund		London[17]	OEIC, sub fund	20.35%
iShares Bloomberg Roll Select Commodity Swap UCITS ETF GBP (Acc)		Dublin[38]	UCITS, sub fund	31.16%
Amundi UCITS Funds – Amundi Global Multi-Factor Equity Fund C Cap		Luxembourg[39]	UCITS, sub fund	59.73%
AQR UCITS Funds – AQR Global Risk Parity C5 GBP (Acc)		USA[23]	UCITS, sub fund	45.63%
AB SICAV I – Emerging Markets Low Volatility Equity Portfolio		Luxembourg[29]	SICAV, sub fund	71.54%
Aberdeen Standard SICAV I – GDP Weighted Global Government Bond Fund		Luxembourg[33]	SICAV, sub fund	81.29%
Aberdeen Standard SICAV I – Global Bond Fund		Luxembourg[33]	SICAV, sub fund	93.46%
Aberdeen Standard SICAV I – Global Government Bond Fund		Luxembourg[33]	SICAV, sub fund	22.71%
Aviva Investors UK Property Feeder Inc Fund 1		London[42]	OEIC, sub fund	35.12%
AXA Framlington FinTech Fund		London[30]	Unit Trust	21.38%
AXA Sterling Index Linked Bond Fund		London[30]	OEIC, sub fund	20.31%
Beresford Funds – Indexed Euro Large Cap Corporate Bond Fund		Dublin[48]	ICAV, sub fund	82.89%
Fidelity Multi Asset Open Adventurous Fund		Surrey[45]	OEIC, sub fund	64.53%
Goldman Sachs SICAV – Emerging Markets Total Return Bond Portfolio		Luxembourg[32]	SICAV, sub fund	94.48%
HSBC FTSE EPRA NAREIT Developed UCITS ETF		London[46]	UCITS, sub fund	48.88%
Invesco US Equity Fund		Luxembourg[29]	SICAV, sub fund	25.16%
L&G Absolute Return Bond Plus Fund		Luxembourg[51]	SICAV, sub fund	69.95%
L&G Emerging Markets Bond Fund		Luxembourg[51]	SICAV, sub fund	53.50%
L&G Emerging Markets Short Duration Bond Fund		Luxembourg[51]	SICAV, sub fund	22.88%
L&G Multi-Asset Target Return Fund		Luxembourg[51]	SICAV, sub fund	28.22%
Legal & General Authorised Contractual Scheme – L&G Real Income Builder Fund		London[44]	UCITS, sub fund	50.35%
Legal & General Asian Income Trust		London[44]	Unit Trust	40.32%
Legal & General Dynamic Bond Fund		London[44]	Unit Trust	53.98%
Legal & General Emerging Markets Government Bond (Local Currency) Index Fund		London[44]	Unit Trust	25.63%
Legal & General Emerging Markets Government Bond USD Index Fund		London[44]	Unit Trust	29.81%
Legal & General Ethical Trust		London[44]	Unit Trust	23.59%
Legal & General European Index Trust		London[44]	Unit Trust	23.76%
Legal & General Global Real Estate Dividend Index Fund		London[44]	Unit Trust	30.57%
Legal & General High Income Trust		London[44]	Unit Trust	45.31%
L&G Euro High Alpha Corporate Bond Fund		Luxembourg[51]	SICAV, sub fund	51.99%
Legal & General UK Equity Income Fund		London[44]	Unit Trust	25.50%
Legal & General UK Smaller Companies Trust		London[44]	Unit Trust	28.98%
Legal & General UK Special Situations Trust		London[44]	Unit Trust	47.97%
LGIM Sterling Liquidity Plus Fund		London[44]	OEIC, sub fund	51.87%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares / units held
Marks and Spencer Worldwide Managed Fund		London[46]	Unit Trust	40.45%
Quilter Investors Bond 2 Fund		London[49]	OEIC, sub fund	27.26%
Quilter Investors China Equity Fund		London[49]	OEIC, sub fund	23.82%
Quilter Investors Cirilium Moderate Blend Portfolio		London[49]	OEIC, sub fund	50.35%
Quilter Investors Ethical Equity Fund		London[49]	Unit Trust	49.72%
Quilter Investors Global Equity Growth Fund		London[49]	OEIC, sub fund	39.84%
Quilter Investors Global Equity Index Fund		London[49]	Unit Trust	22.59%
Quilter Investors Monthly Income and Growth Portfolio Fund		London[49]	OEIC, sub fund	26.72%
Quilter Investors Sterling Corporate Bond Fund		London[49]	OEIC, sub fund	31.54%
Quilter Investors UK Equity Index Fund		London[49]	OEIC, sub fund	35.78%
ASI UK Responsible Equity Fund		Edinburgh[25]	OEIC, sub fund	36.24%
Central Saint Giles Unit Trust		Jersey[52]	Unit Trust	25.02%
Merian Global Equity Income Fund (IRL)		Dublin[40]	UCITS, sub fund	22.18%
Performance Retail Unit Trust		Jersey[53]	Unit Trust	43.63%

1 Under s479a of the Companies Act 2006 these subsidiaries have been granted audit exemption by parental guarantee.
2 1 Wythall Green Way, Wythall, Birmingham, West Midlands, B47 6WG, United Kingdom
3 Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU, United Kingdom
4 Avenue Louise 326, bte 33 1050 Brussels, Belgium
5 Ugland House, Grand Cayman, KY1-1104, Cayman Islands
6 90 St. Stephen's Green, Dublin, D2, Ireland
7 Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland
8 Arthur Cox Building, 10 Earlsfort Terrace, Dublin 2, Dublin, Ireland
9 25/28 North Wall Quay, Dublin 1, Dublin, Ireland
10 Telestone 8, Teleport, Naritaweg 165, 1043 BW, Amsterdam, Netherlands
11 301 St Vincent Street, Glasgow, G2 5HN, United Kingdom
12 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
13 Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey
14 Kings Place, 90 York Way, London, N1 9GE, United Kingdom
15 22-24 New Street, St Pauls Gate, 4th Floor, JE1 4TR, Jersey
16 32 Commercial Street, St Helier, Jersey, Channel Islands, JE2 3RU, Jersey
17 Bow Bells House, 1 Bread Street, London, EC4M 9HH, United Kingdom
18 Corporation Service Company, 2711 Centerville Rd Suite 400, Wilmington, DE 19808, United States
19 Suite 202, 103 Foulk Road, Wilmington, Delaware, 19803, USA
20 8 Boulevard Royal, L-2449, Luxembourg, Luxembourg
21 The Pearl Centre, Lynch Wood, Peterborough, PE2 6FY, England
22 Citco (Sweden) Ab Stureplan 4c 4 Tr 114 35 Stockholm
23 Aqr Capital Management LLC, Greenwich, 06830, United States
24 6B, rue Gabriel Lippmann, Parc d'Activité Syrdall 2, L-5365 Münsbach, Luxembourg
25 1 George Street, Edinburgh, EH2 2LL, United Kingdom
26 Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH, United Kingdom
27 70 Sir Rogerson's Quay, Dublin 2, Republic of Ireland
28 201 Bishopsgate, London, EC2M 3AE, United Kingdom
29 88 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg
30 155 Bishopsgate, London, EX2M 3JX, United Kingdom
31 Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW, United Kingdom
32 49, Avenue J.F. Kennedy, L-1855 Luxembourg
33 35a Avenue J.F. Kennedy, L-1855, Luxembourg
34 Avenida de Aragon 330 – Building 5, 3rd Floor, Parque Empresarial Las Mercedes, 28022 – Madrid, Spain
35 Elizabeth House, 9 Castle Street, St Helier, JE4 2QP, Jersey
36 2 Snowhill, Birmingham, B4 6WR, United Kingdom
37 12 Throgmorton Avenue, London EC2N 2DL
38 1st Floor, 2 Ballsbridge Park, Ballsbridge, Dublin, D04 YW83, Ireland
39 5, Allée Scheffer, 2520 Luxembourg, Luxembourg
40 33 Sir John Rogerson's Quay, Dublin 2, Ireland

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. Group Entities continued

41 Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB

42 St Helen's, 1 Undershaft, London EC3P 3DQ 8EJ

43 c/o Citco (Denmark) ApS, Holbergsgade 14, 2 .tv, 1057 København K Denmark

44 One Coleman Street, London, EC2R 5AA

45 Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, England, KT20 6RP

46 8 Canada Square, London, E14 5HQ

47 Marlborough House, 59 Chorley New Road, Bolton, BL1 4QP

48 Beresford Court, Beresford Place, Dublin 1, Ireland

49 Millennium Bridge House, 2 Lambeth Hill, London, United Kingdom, EC4V 4AJ

50 3rd Floor, College Park House, Nassau Street, Dublin 2 Nassau Street, Ireland

51 6, rue Lou Hemmer, L-1748 Senningerberg, Grand Duchy of Luxembourg

52 Grove House, Green Street, St Helier, Jersey JE1 2ST

53 44-47 Esplanade, St Helier, Jersey. JE4 9WG

The following subsidiaries were dissolved during the period. The subsidiaries were deconsolidated from the date of dissolution:

- Phoenix Life Pension Trust Limited;
- Hundred S.à r.l.; and
- 28 Ribera del Loira SA.

The following subsidiaries were either fully disposed of or holdings became insignificant to the Group. The subsidiaries were deconsolidated from either the date of disposal or from the date when the holdings became insignificant:

- Lake Meadows Management Company Limited;
- Mutual Securitisation plc;
- AB SICAV I – ESG Responsible Global Factor Portfolio SF1 GBP (Acc);
- BMO Barclays 1-3 Year Global Corporate Bond (GBP Hedged) UCITS ETF;
- PUTM Cautious Unit Trust;
- PUTM Growth Unit Trust;
- PUTM Opportunity Unit Trust;
- PUTM International Growth Unit Trust;
- PUTM Bothwell Institutional Credit Fund;
- Standard Life Trust Management Pan European Trust; and
- Standard Life Investment Company II Corporate Debt Fund.

The following associate was dissolved during the period. The investment in associate was derecognised from the date of dissolution:

- The Moor House Limited Partnership.

The Group no longer has significant holdings in the following undertakings:

- AXA Global High Income Fund;
- Nomura Funds Ireland American Century Concentrated Global Growth Equity Fund (Acc);
- Amundi Index Solutions SICAV Funds – AIS Amundi Index Msci World SRI I14 HG Cap;
- Standard Life Investment Company UK Equity High Alpha Fund;
- Standard Life Investment Company Short Duration Credit Fund;
- Standard Life Investment Company UK Equity Recovery Fund;
- Standard Life Investment Company UK Equity Growth Fund;
- Aberdeen Liquidity Fund (Lux) Sterling Fund;
- Aberdeen Liquid (Lux) Ultra Short Duration Sterling Fund;
- Standard Life Investments Global SICAV Indian Equity Midcap Opportunities Fund; and
- Standard Life Investment Company III MyFolio Multi-Manager Inc III Fund.

I. OTHER NOTES

I1. Share-Based Payment

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Further details regarding the determination of the fair value of equity-settled share-based transactions are set out below.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

I1.1 Share-based payment expense

The expense recognised for employee services receivable during the year is as follows:

	2020 £m	2019 £m
Expense arising from equity-settled share-based payment transactions	**13**	11

I1.2 Share-based payment expense

Long-Term Incentive Plan ('LTIP')

The Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares.

Assuming no good leavers or other events which would trigger early vesting rights, the 2018 and 2019 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and Total Shareholder Return ('TSR'). The 2020 LTIP awards are subject to performance conditions tied to the Company's performance in respect of net operating cash receipts, return on shareholder value, persistency and TSR.

For all LTIP awards, a holding period applies so that any LTIP awards to Executive Committee members for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives.

2020 LTIP awards were granted on 13 March 2020 and are expected to vest on 13 March 2023. The 2017 LTIP awards vested on 24 March 2020. The 2018 awards will vest on 21 March 2021 and the 2019 awards will vest on 11 March 2022. The number of shares for all outstanding LTIP awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the instruments were granted. The fair value of the 2018, 2019 and 2020 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2018, 2019 and 2020 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2020 TSR performance condition	2019 TSR performance condition	2018 TSR performance condition
Share price (p)	**586.3**	694.0	709.5
Expected term (years)	**3.0**	3.0	3.0
Expected volatility (%)	**20**	20	20
Risk-free interest rate (%)	**0.28**	0.74	0.96
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

LTIP Buy Out awards were granted to the Group Chief Executive Officer in 2019, and finalised in 2020, following forfeiture of a proportion of his long-term incentive awards held with Aviva plc that had been awarded in March 2017 and May 2018. The Aviva March 2017 LTIP vested on 27 March 2020 with a performance outturn of 50%. The Aviva May 2018 LTIP is due to vest on 26 March 2021.

On 14 August 2020, LTIP awards were granted to certain senior management employees. The vesting periods and performance conditions for these awards are linked to the core 2018, 2019 and 2020 LTIP awards.

On 21 December 2018 LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are discreet vesting periods for these awards and the second tranche of awards vested on 27 March 2020. The remaining awards vest on 28 March 2021. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 13 March 2020, awards were granted and are expected to vest on 13 March 2023. The 2017 awards vested on 24 March 2020. The 2018 and 2019 awards are expected to vest on 21 March 2021 and 11 March 2022 respectively. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

I. OTHER NOTES continued

I1. Share-Based Payment continued

I1.2 Share-based payment schemes continued

Deferred Bonus Share Scheme ('DBSS')

Each year, part of the annual incentive for certain executives is deferred into shares of the parent company. The grant of these shares is conditional on the employee remaining in employment with the Group for a period of three years from the date of grant. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting. Dividends will accrue for DBSS awards over the three year deferral period. The number of shares for all outstanding DBSS awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The 2020 DBSS was granted on 13 March 2020 and is expected to vest on 13 March 2023. The 2017 DBSS awards vested during the year. The 2018 awards are expected to vest on 15 March 2021 and the 2019 awards are expected to vest on 11 March 2022.

The fair value of these awards is estimated at the average share price in the three days preceding the date of the grant, taking into account the terms and conditions upon which the options were granted.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The 2020 sharesave options were granted on 8 April 2020.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave prior to the end of their three or five year period.

Following the scheme of arrangement, participants in the Old PGH sharesave plan exchanged their options over Old PGH shares for equivalent options over PGH plc ordinary shares. All sharesave options were increased in November 2016 and again in July 2018 following the Group's rights issues and the exercise price of these awards was also amended as a result of these issues.

The fair value of the options has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The following information was relevant in the determination of the fair value of the 2016 to 2020 UK sharesave options:

	2020 sharesave	2019 sharesave	2018 sharesave	2017 sharesave	2016 sharesave
Share price (£)	**5.664**	6.800	7.685	7.470	8.890
Exercise price (£) (Revised)	**4.970**	5.610	5.629	5.674	5.746
Expected life (years)	**3.25 and 5.25**	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**0.5 (for 3.25 year scheme) and 0.5 (for 5.25 year scheme)**	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.0 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	**30.0**	30.0	30.0	30.0	30.0
Dividend yield (%)	**8.2**	6.8	6.5	6.3	6.0

The information for determining the fair value of the 2020 Irish sharesave options differed from that included in the table above as follows:

- Share price (€): 6.462
- Exercise price (€) 5.650
- Risk-free rate (%): 0.3 (for 3.25 year scheme) and 0.2 (for 5.25 year scheme).

Share Incentive Plan

The Group operates two Share Incentive Plan ('SIP') open to UK and Irish employees which allows participating employees to purchase 'Partnership shares' in the Company through monthly contributions. In respect of the UK SIP, the contributions are limited to the lower of £150 per month and 10% gross monthly salary. In 2019 the matching element of the UK SIP was amended to give the employee one 'Matching share' for each 'Partnership share' purchased limited to £50. Contributions above £50 are not matched. The Irish SIP, was launched in 2019, gives the employee 1.4 'Matching shares' for each 'Partnership share' purchased. For this plan monthly contributions are limited to the lower of €40 per month and 7.5% of gross monthly salary.

The fair value of the Matching shares granted is estimated as the share price at date of grant, taking into account terms and conditions upon which the instruments were granted. At 31 December 2020, 287,547 matching shares (including unrestricted shares) were conditionally awarded to employees (2019: 146,769).

I1.3 Movements in the year

The following tables illustrate the number of, and movements in, LTIP, Sharesave and DBSS share options during the year:

	Number of share options 2020		
	LTIP	**Sharesave**	**DBSS**
Outstanding at the beginning of the year	**4,637,555**	**2,542,764**	**905,867**
Granted during the year	**2,634,386**	**2,233,597**	**588,925**
Forfeited/cancelled during the year	**(1,030,017)**	**(767,140)**	**–**
Exercised during the year	**(752,929)**	**(440,062)**	**(226,940)**
Outstanding at the end of the year	**5,488,995**	**3,569,159**	**1,267,852**

	Number of share options 2019		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	3,794,061	1,375,620	771,040
Granted during the year	1,657,107	1,669,701	356,872
Forfeited/cancelled during the year	(588,747)	(186,878)	–
Exercised during the year	(224,866)	(315,679)	(222,045)
Outstanding at the end of the year	4,637,555	2,542,764	905,867

The weighted average fair value of options granted during the year was £3.88 (2019: £4.10).

The weighted average share price at the date of exercise for the rewards exercised is £6.74 (2019: £6.81).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2020 is 5.6 years (2019: 5.0 years).

I2. Cash Flows From Operating Activities

The following analysis gives further detail behind the 'cash generated/ (utilised) by operations' figure in the statement of consolidated cash flows.

	2020 £m	2019 £m
Profit for the year before tax	**1,270**	351
Non-cash movements in profit for the period before tax		
Gain on acquisition	**(372)**	–
Gain on Part VII portfolio transfer	**(85)**	–
Fair value losses/(gains) on:		
Investment property	**52**	55
Financial assets and derivative liabilities	**(10,806)**	(18,784)
Change in fair value of borrowings	**(39)**	(47)
Amortisation of intangible assets	**487**	402
Change in present value of future profits	**–**	(70)
Change in unallocated surplus	**113**	(84)
Share-based payment charge	**13**	11
Finance costs	**234**	162
Net interest expense on Group defined benefit liability/asset	**29**	29
Pension past service costs	**2**	–
Other costs of pension schemes	**5**	4
Decrease in investment assets	**8,254**	6,131
Decrease/(increase) in reinsurance assets	**708**	(295)
Increase in insurance contract and investment contract liabilities	**6,261**	11,792
Decrease in deposits received from reinsurers	**(236)**	(236)
Increase in obligation for repayment of collateral received	**1,146**	1,026
Net decrease/(increase) in working capital	**211**	(128)
Other items:		
Contributions to defined benefit pension schemes	**(77)**	(46)
Cash transferred under Part VII portfolio transfer	**146**	–
Cash generated by operations	**7,316**	273

I. OTHER NOTES continued

I3. Capital Management

The Group's capital management is based on the Solvency II framework. This involves a valuation in line with Solvency II principles of the Group's Own Funds and risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). This note sets out the Group's approach to managing capital and provides an analysis of Own Funds and SCR.

Risk and capital management objectives

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial and other assets and incurs insurance contract liabilities and financial and other liabilities. Financial and other assets principally comprise investments in equity securities, debt securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities principally comprise investment contracts, borrowings for financing purposes, derivative liabilities and net asset value attributable to unit holders.

The Group's risk management framework is described in the risk management commentary on pages 79 to 89 of the Annual Report and Accounts and the risk universe component of this framework summarises the comprehensive set of risks to which the Group is exposed. These major risks ('Level 1' risks) that the Group's businesses are exposed to and the Group's approach to managing those risks are outlined in the following notes:

- Note E6: Credit risk, market risk, financial soundness risk, strategic risk, customer risk and operational risk; and
- Note F4: Insurance risk.

The section on risk and capital management objectives is included below.

Capital Management Framework

The Group's Capital Management Framework is designed to achieve the following objectives:

- to provide appropriate security for policyholders and meet all regulatory capital requirements under the Solvency II regime while not retaining unnecessary excess capital;
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- to optimise the Fitch Ratings financial leverage to maintain an investment grade credit rating; and
- to maintain a stable and sustainable dividend policy.

The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

Group capital

Group capital is managed on a Solvency II basis. Under the Solvency II framework, the primary sources of capital managed by the Group comprises the Group's Own Funds as measured under the Solvency II principles adjusted to exclude surplus funds attributable to the Group's unsupported with-profit funds and unsupported pension schemes.

A Solvency II capital assessment involves 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'). Solvency II surplus is the excess of Own Funds over the SCR.

The Group aims to maintain a Solvency II surplus at least equal to its Board-approved capital policy, which reflects Board risk appetite for meeting prevailing solvency requirements.

The capital policy of each Life Company is set and monitored by each Life Company Board. These policies ensure there is sufficient capital within each Life Company to meet regulatory capital requirements under a range of stress conditions. The capital policy of each Life Company varies according to the risk profile and financial strength of the company.

The capital policy of each Group Holding Company is designed to ensure that there is sufficient liquidity to meet creditor obligations through the combination of cash buffers and cash flows from the Group's operating companies.

Own Funds and SCR

Basic Own Funds represents the excess of assets over liabilities from the Solvency II balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items.

The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). The Group's Own Funds are assessed for their eligibility to cover the Group SCR with reference to both the quality of capital and its availability and transferability. Surplus funds in with-profit funds of the Life companies and in the pension schemes are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

Eligible Own Funds to cover the SCR are obtained after applying the prescribed Tiering limits and availability restrictions to the Basic Own Funds.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1 in 200 year event'.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth and Abbey Life businesses within the scope of the Group's Internal Model in March 2017 and March 2018 respectively.

The acquired Standard Life Assurance businesses determine their capital requirements in accordance with an approved partial Internal Model. The Irish life entity, Standard Life International Designated Activity Company, determines its capital requirements in accordance with the Standard Formula.

The ReAssure businesses, acquired during 2020, also apply the Standard Formula to determine capital requirements.

In accordance with the approvals received from the PRA, the Enlarged Group currently operates a partial Internal Model to calculate Group SCR, aggregating outputs from the existing Phoenix Internal Model, the Standard Life Internal Model and the Standard Formula with no further diversification. A harmonisation programme to combine the two models into a single Internal Model is expected to be completed during 2021.

Group capital resources – unaudited

The Group capital resources are based on the Group's Eligible Own Funds adjusted to remove amounts pertaining to unsupported with-profit funds and Group pension schemes:

Unaudited	2020 £bn	2019 £bn
PGH plc Eligible Own Funds	**16.8**	10.8
Remove Own Funds pertaining to unsupported with-profit funds and pension schemes	**(3.2)**	(2.5)
Group capital resources	**13.6**	8.3

Solvency II surplus – unaudited

An analysis of the PGH plc Solvency II surplus as at 31 December 2020 is provided in the business review section on page 52 to 54. The Group has complied with all externally imposed capital requirements during the year.

Additional information on the PGH plc Own Funds, SCR and MCR is included in the additional capital disclosures on pages 307 and 308.

I. OTHER NOTES continued

I4. Related Party Transactions

In the ordinary course of business, the Group and its subsidiaries carry out transactions with related parties as defined by IAS 24 *Related party disclosures*.

I4.1 Related party transactions

During the year, the Group entered into the following transactions with related parties. Following the acquisition of the Standard Life Assurance businesses in 2018, SLA plc took a 19.98% equity stake in the Enlarged Group, and as a result became a related party of the Group. As at 31 December 2020 the SLA plc holding is 14.42%. SLA plc is considered to have a significant influence over the Group due to their equity stake, representation on the Board of Directors and the existence of a strategic partnership between the two parties.

	Transactions 2020 £m	Balances outstanding 2020 £m	Transactions 2019 £m	Balances outstanding 2019 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	(3)	–	(3)	–
UK Commercial Property Trust Limited				
Dividend income	13	–	21	–
Reduction in investment	–	–	(17)	–
SLA plc				
Investment management fees	(125)	(54)	(133)	(55)
Fees under Transitional Services Arrangement and material outsource agreements	(6)	(2)	(6)	(4)
Receipts under Transitional Services Arrangement	64	19	75	10
Net receipts under Client Service Proposition Agreement	16	36	18	23
Net payments under deed of indemnity	6	(68)	(33)	(64)
Dividend paid	(67)	–	(67)	–

I4.2 Transactions with key management personnel

The total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are as follows:

	2020 £m	2019 £m
Salary and other short-term benefits	5	5
Equity compensation plans	5	2

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 124 to 158.

During the year to 31 December 2020 key management personnel and their close family members contributed £9,100 (2019: £16,395) to Pensions and Savings products sold by the Group. At 31 December 2020, the total value of key management personnel's investments in Group Pensions and Savings products was £2,842,300 (2019: £2,590,240).

I5. Commitments

This note analyses the Group's other commitments.

	2020 £m	2019 £m
To subscribe to private equity funds and other unlisted assets	565	396
To purchase, construct or develop investment property and income strips	89	161
For repairs, maintenance or enhancements of investment property	26	6

I6. Contingent Liabilities

Where the Group has a possible future obligation as a result of a past event, or a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

Agreements with Standard Life Aberdeen

In 2019, the Group noted that it was engaged in ongoing discussions with members of the Standard Life Aberdeen group in respect of disagreements over the operation of certain aspects of the SLA Share Purchase Agreement relating to services and expenses, and the scope and cost of services provided pursuant to the Transitional Services agreement ('TSA'), the Client Service and Proposition Agreement ('CSPA'), and certain other agreements between the Group and members of the Standard Life Aberdeen group. On 23 February 2021, the Group announced that it had entered into a new agreement with SLA which simplifies the arrangements of their Strategic Partnership and resolves the legacy issues outlined above. For further details of the new agreement see note I7.

Legal proceedings

In the normal course of business, the Group is exposed to certain legal issues, which can involve litigation and arbitration. At the period end, the Group has a number of contingent liabilities in this regard, none of which are considered by the Directors to be material, with the exception of the Standard Life Aberdeen agreements matters detailed above.

I7. Events After the Reporting Period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

On 23 February 2021, the Group announced that it had entered into a new agreement with SLA which simplifies the arrangements of their Strategic Partnership, enabling the Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using SLA's asset management services in support of Phoenix's growth strategy. Under the terms of the transaction, the Group will sell its UK investment and platform-related products, comprising Wrap Self Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') to SLA, and acquire ownership of the Standard Life brand. As part of the acquisition of the brand, the relevant marketing, distribution and data team members will transfer to the Group. As a result, the Client Service and Proposition Agreement ('CSPA') entered into between the two groups following the acquisition of the Standard Life businesses in 2018, will be dissolved. In addition, Phoenix and SLA resolved all legacy issues in relation to the Transitional Service Agreement ('TSA') entered into at the time of the acquisition of the Standard Life businesses and the CSPA.

The sale of the Wrap SIPP, Onshore Bond and TIP business currently within Standard Life Assurance Limited, will be effected through a Part VII transfer targeted for completion in late 2022. The economic risk and rewards for this business will transfer to SLA effective from 1 January 2021 via a profit transfer arrangement. As at 31 December 2020, the Group held investment contracts liabilities, assets backing the liabilities, acquired in-force intangible assets, a CSPA intangible asset and related tax balances in its statement of consolidated financial position in relation to this business.

The Group will receive cash consideration for the overall transaction of £115 million, the majority of which has already been received. When taking into account all aspects of the transaction the IFRS financial impact in profit or loss and to net assets is not expected to be material.

On 3 March 2021, an increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget. As a result of the rate increase, the net deferred tax liability in existence at the end of 2020 is expected to increase in value by approximately £162 million to £1,198 million.

On 5 March 2021, the Board recommended a final dividend of 24.1p per share (2019: 23.4p per share) for the year ended 31 December 2020. Payment of the final dividend is subject to shareholder approval at the AGM. The cost of this dividend has not been recognised as a liability in the financial statements for 2020 and will be charged to the statement of changes in equity in 2021.

N LYONS
A BRIGGS
R THAKRAR
A BARBOUR
K GREEN
H IIOKA
W MAYALL
C MINTER
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON
M TUMILITY

7 March 2021

PARENT COMPANY FINANCIAL STATEMENTS STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
Investments in Group entities	9	**10,090**	6,928
Financial assets			
Equities	11	**–**	2
Loans and deposits	10	**2,119**	1,227
Derivatives	6	**–**	5
Debt securities	11	**1**	43
Collective investment schemes	11	**194**	200
Deferred tax	12	**16**	15
Other amounts due from Group entities	18	**295**	198
Cash and cash equivalents	13	**4**	45
Total assets		**12,719**	8,663
EQUITY AND LIABILITIES			
Equity attributable to ordinary shareholders			
Share capital	3	**100**	72
Share premium	3	**4**	2
Merger reserve		**1,819**	–
Other reserve		**(4)**	(4)
Retained earnings		**5,211**	5,368
Total equity attributable to ordinary shareholders		**7,130**	5,438
Tier 1 Notes	4	**411**	411
Total equity		**7,541**	5,849
Liabilities			
Financial liabilities			
Borrowings	5	**4,521**	2,020
Derivatives	6	**–**	31
Other amounts due to Group entities	18	**448**	533
Provisions	7	**122**	172
Accruals and deferred income	8	**87**	58
Total liabilities		**5,178**	2,814
Total equity and liabilities		**12,719**	8,663

The notes identified numerically on pages 293 to 302 are an integral part of these separate financial statements. Where items also appear in the consolidated financial statements, reference is made to the notes (identified alphanumerically) on pages 184 to 289.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital (note 3) £m	Share premium (note 3) £m	Merger reserve (note 3) £m	Other reserve (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total equity £m
At 1 January 2020	**72**	**2**	**–**	**(4)**	**5,368**	**5,438**	**411**	**5,849**
						–		
Total comprehensive income for the year attributable to owners	**–**	**–**	**–**	**–**	**256**	**256**	**–**	**256**
Issue of ordinary share capital, net of associated commissions and expenses	**28**	**2**	**1,819**	**–**	**–**	**1,849**	**–**	**1,849**
Dividends paid on ordinary shares (note B4)	**–**	**–**	**–**	**–**	**(403)**	**(403)**	**–**	**(403)**
Coupon paid on Tier 1 Notes, net of tax relief	**–**	**–**	**–**	**–**	**(23)**	**(23)**	**–**	**(23)**
Credit to equity for equity-settled share-based payments (note I1)	**–**	**–**	**–**	**–**	**13**	**13**	**–**	**13**
At 31 December 2020	**100**	**4**	**1,819**	**(4)**	**5,211**	**7,130**	**411**	**7,541**

For the year ended 31 December 2019

	Share capital (note 3) £m	Share premium (note 3) £m	Other reserve (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total equity £m
At 1 January 2019	72	–	(4)	4,075	4,143	411	4,554
Total comprehensive income for the year attributable to owners	–	–	–	1,643	1,643	–	1,643
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	2	–	2
Dividends paid on ordinary shares (note B4)	–	–	–	(338)	(338)	–	(338)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	(23)	(23)	–	(23)
Credit to equity for equity-settled share-based payments (note I1)	–	–	–	11	11	–	11
At 31 December 2019	72	2	(4)	5,368	5,438	411	5,849

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash (utilised)/generated by operations	14	**(71)**	411
Net cash flows from operating activities		**(71)**	411
Cash flows from investing activities			
Acquisition of ReAssure subsidiaries		**(1,265)**	–
Investment income		**5**	2
Interest received from Group entities		**74**	77
Capital contribution to Group entity		**(50)**	–
Repayment of amounts due from Group entities		**400**	–
Net cash flows from investing activities		**(836)**	79
Cash flows from financing activities			
Proceeds from issuing ordinary shares	3	**2**	2
Proceeds from new shareholder borrowings, net of associated expenses	5	**1,445**	100
Repayment of shareholder borrowings	5	**–**	(100)
Ordinary share dividends paid		**(403)**	(338)
Interest paid on borrowings		**(149)**	(81)
Coupon paid on Tier 1 Notes		**(29)**	(29)
Net cash flows from financing activities		**866**	(446)
Net (decrease)/increase in cash and cash equivalents		**(41)**	44
Cash and cash equivalents at the beginning of the year		**45**	1
Cash and cash equivalents at the end of the year		**4**	45

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared on a going concern and on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. Profit attributable to owners for the year ended 31 December 2020 was £256 million (2019: £1,643 million).

Statement of Compliance

The Company's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006.

The financial statements are presented in sterling (£) rounded to the nearest million except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(b) Accounting policies

Where applicable, the accounting policies in the separate financial statements are the same as those presented in the consolidated financial statements on pages 177 to 289, with the exception of the two policies detailed below.

The Company's accounting policy for financial assets is in accordance with the requirements of IFRS 9 Financial Instruments. As the Group has applied the temporary exemption from IFRS 9 available for entities whose activities are predominantly connected with insurance contracts, a different accounting policy has been adopted in the preparation of the consolidated financial statements. In addition, the Company has not adopted the Group's policy of hedge accounting.

Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note. Each note within the Company financial statements makes reference to the note to the consolidated financial statements containing the applicable accounting policy. The accounting policy in relation to foreign currency transactions is included within note A2.1 to the consolidated financial statements.

Investments in Group entities

Investments in Group entities are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment is impaired by assessing whether any indicators of impairment exist. If objective evidence of impairment exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the Group entity and its carrying value and recognises the amount as an expense in the income statement.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in notes 10 and 13.

Equities, debt securities, collective investment schemes and derivatives are measured at FVTPL as they are managed on a fair value basis.

Impairment of financial assets

The Company assesses the expected credit losses associated with its loans and deposits, other amounts due from Group entities and cash carried at amortised cost. The measurement of credit impairment is based on an Expected Credit Loss ('ECL') model and depends upon whether there has been a significant increase in credit risk.

For those credit exposures for which credit risk has not increased significantly since initial recognition, the Company measures loss allowances at an amount equal to the total expected credit losses resulting from default events that are possible within 12 months after the reporting date ('12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the Company measures and recognises an allowance at an amount equal to the expected credit losses over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). If the financial asset becomes 'credit-impaired' (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Company will recognise a Lifetime ECL. ECLs are derived from unbiased and probability-weighted estimates of expected loss.

See note 15 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL, are recognised in the income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance.

(c) Impacts of COVID-19 during the year

The 'Group Chief Executive Officer's Report', 'Business Review', 'Risk Management', 'Viability Statement' and 'Directors' Report: Going Concern' sections of this Annual Report provide information as to the broader effects of COVID-19 on the Group's financial results, its operations and prospects. Further details of the specific impacts of COVID-19 are detailed in note A6 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. FINANCIAL INFORMATION

New accounting pronouncements not yet effective

Details of the standards, interpretations and amendments to be adopted in future periods are detailed in note A5 to the consolidated financial statements, none of which are expected to have a significant impact on the Company's financial statements.

Note A5 outlines that the Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As detailed above, such an exemption is not applicable to the Company given it is not an insurer. Therefore IFRS 9 has been adopted by the Company and the relevant disclosures are included in these financial statements.

3. SHARE CAPITAL, SHARE PREMIUM AND MERGER RESERVE

On 22 July 2020, the Group acquired ReAssure Group plc and as part consideration for the acquisition issued 277,277,138 new ordinary shares to Swiss Re Group, 144,877,304 shares of which were subsequently transferred to MS&AD Insurance Group Holdings ('MS&AD'). The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The Company has applied the relief in section 612 of the Companies Act 2006 to present the difference between the consideration received and the nominal value of the shares issued of £1,819 million in a merger reserve as opposed to in share premium. A merger reserve is required to be used as a result of the Company having issued equity shares as part consideration for the shares of ReAssure Group plc and securing at least a 90% holding in that entity.

During 2020, the Company issued 440,062 shares (2019: 315,730 shares) at a premium of £2 million (2019: £2 million) in order to satisfy its obligations to employees under the Group's sharesave schemes.

	2020 £m	2019 £m
Issued and fully paid:		
999.2 million ordinary shares of £0.10 each (2019: 721.5 million)	**100**	72

2020	**Number**	**£**
Shares in issue at 1 January	**721,514,944**	**72,151,494**
Ordinary shares issued to Swiss Re and MS&AD	**277,277,138**	**27,727,714**
Other ordinary shares issued in the period	**440,062**	**44,006**
Ordinary shares in issue at 31 December	**999,232,144**	**99,923,214**

2019	Number	£
Shares in issue at 1 January	721,199,214	72,119,921
Ordinary shares issued in the period	315,730	31,573
Ordinary shares in issue at 31 December	721,514,944	72,151,494

4. TIER 1 NOTES

The accounting policy for the Tier 1 Notes is included in note D4 to the consolidated financial statements.

	2020 £m	2019 £m
Tier 1 notes	**411**	411

On 12 December 2018 the Company was substituted in place of Old PGH as issuer of the Tier 1 Notes and these were recognised at the £411 million fair value of an intragroup loan that was received as consideration. Details of the terms of the Tier 1 Notes can be found in note D4 to the consolidated financial statements.

On 27 October 2020, the terms of the Tier 1 Notes were amended and the consequences of a trigger event, linked to the Solvency II capital position changed. Previously the Tier 1 Notes were subject to a permanent write-down in value to zero. The amended terms require that the Tier 1 Notes would automatically be subject to conversion to ordinary shares of the Company at the conversion price of £1,000 per share, subject to adjustment in accordance with the terms and conditions of the notes and all accrued and unpaid interest would be cancelled. Following any such conversion there would be no reinstatement of any part of the principal amount of, or interest on, the Tier 1 Notes at any time.

5. BORROWINGS

The accounting policy for borrowings is included in note E5 to the consolidated financial statements.

	Carrying value		Fair value	
	2020 £m	2019 £m	**2020 £m**	2019 £m
£428 million subordinated loans (note a)	**436**	437	**517**	503
£450 million Tier 3 subordinated notes (note b)	**449**	448	**470**	473
US $500 million Tier 2 bonds (note c)	**329**	334	**416**	396
€500 million Tier 2 notes (note d)	**410**	385	**516**	473
£300 million senior unsecured bond (note e)	**123**	128	**125**	130
Loan due to Standard Life Assurance Limited (note f)	**294**	288	**294**	288
US $750 million Contingent Convertible Tier 1 notes (note g)	**545**	–	**585**	–
£500 million Tier 2 notes (note h)	**484**	–	**622**	–
US $500 million Fixed Rate Reset Tier 2 notes (note i)	**364**	–	**395**	–
£500 million 5.867% Tier 2 subordinated notes (note j)	**556**	–	**620**	–
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note k)	**272**	–	**280**	–
£250 million 4.016% Tier 3 subordinated notes (note l)	**259**	–	**266**	–
Total borrowings	**4,521**	2,020	**5,106**	2,263
Amount due for settlement after 12 months	**4,398**	2,020		

a. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £428 million subordinated notes due 2025 at a coupon of 6.625%, which were initially recognised at fair value of £439 million.

b. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £450 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%, which were initially recognised at fair value of £447 million.

c. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%, which were initially recognised at fair value of £349 million.

d. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the €500 million Tier 2 notes due 2029 with a coupon of 4.375%, which were initially recognised at fair value of £407 million.

e. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million 7 year senior unsecured bond due 2021 at an annual coupon of 5.75% with principal outstanding of £122 million, which was initially recognised at fair value of £131 million.

f. On 22 February 2019, the Company recognised a loan to Standard Life Assurance Limited ('SLAL') for £162 million, as consideration for Standard Life International Designated Activity Company ('SLIDAC') due 2024. On 28 March 2019 the purchase price was adjusted by £120 million, which resulted in an increase in the loan principal. Interest accrues at LIBOR plus 1.66% and during the year £6 million (2019: £6 million) of interest was capitalised.

g. On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes (the 'contingent convertible Tier 1 Notes') which are unsecured and subordinated. The contingent convertible Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company. The contingent convertible Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.625% per annum up to the 'First Reset Date' of 26 April 2025. Thereafter the fixed rate of interest will be reset on the First Reset Date and on each fifth anniversary of this date by reference to the sum of the yield of the Constant Maturity Treasury ('CMT') rate (based on the prevailing five year US Treasury yield) plus a margin of 4.035%, being the initial credit spread used in pricing the notes. Interest is payable on the contingent convertible Tier 1 Notes semi-annually in arrears on 26 April and 26 October. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter. Refer to note E5(j) to the consolidated financial statements for further details.

h. On 28 April 2020, the Company issued £500 million fixed rate Tier 2 Notes (the 'Tier 2 Notes') which are unsecured and subordinated. The Tier 2 Notes have a maturity date of 28 April 2031 and include an issuer par call right for the three month period prior to maturity. The Tier 2 Notes bear interest on the principal amount at a fixed rate of 5.625% per annum payable annually in arrears on 28 April each year.

i. On 4 June 2020, the Company issued US $500 million fixed rate reset callable Tier 2 notes (the 'Fixed Rate Reset Tier 2 Notes') which are unsecured and subordinated. The Fixed Rate Reset Tier 2 notes have a maturity date of 4 September 2031 with an optional issuer par call right on any day in the three month period up to and including 4 September 2026. The Fixed Rate Reset Tier 2 Notes bear interest on the principal amount at a fixed rate of 4.75% per annum up to the interest rate reset date of 4 September 2026. If the Fixed Rate Reset Tier 2 Notes are not redeemed before that date, the interest rate resets to the sum of the applicable CMT rate (based on the prevailing five year US Treasury yield) plus a margin of 4.276%, being the initial credit spread used in pricing the notes. Interest is payable on the Fixed Rate Reset Tier 2 Notes semi-annually in arrears on 4 March and 4 September each year.

j. On 22 July 2020, the Company was substituted in place of ReAssure Group plc as issuer of the £500 million 5.867% Tier 2 Subordinated Notes. These notes have a maturity date of 13 June 2029 and were initially recognised at their fair value of £559 million.

5. BORROWINGS continued

k. On 22 July 2020, the Company was substituted in place of ReAssure Group plc as issuer of the £250 million fixed rate reset callable Tier 2 subordinated notes The £250 million fixed rate reset callable Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value of £275 million. The fair value adjustment will be amortised over the remaining life of the notes. The notes include an issuer par call right exercisable on 13 June 2024. Interest is payable semi-annually in arrears on 13 June and 13 December. These notes initially bear interest at a rate of 5.766% on the principal amount and the rate of interest will reset on 13 June 2024, and on each interest payment date thereafter, to a margin of 5.17% plus the yield of a UK Treasury Bill of similar term.

l. On 22 July 2020, the Company was substituted in place of ReAssure Group plc as issuer of the £250 million 4.016% Tier 3 subordinated notes. The notes have a maturity date of 13 June 2026 and were initially recognised at their fair value of £259 million. The fair value adjustment is being amortised over the remaining life of the notes.

m. The Company has in place a £1.25 billion unsecured revolving credit facility, maturing in June 2025. There are no mandatory or target amortisation payments associated with the facility but the facility does include customary mandatory prepayment obligations and voluntary prepayments are permissible. The facility accrues interest at a margin over LIBOR that is based on credit rating. The facility remains undrawn as at 31 December 2020.

Borrowings initially recognised at fair value are being amortised to par value over the life of the borrowings.

For the purposes of the additional fair value disclosures for liabilities recognised at amortised cost, all borrowings have been categorised as Level 2 financial instruments.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

	Cash		Non-Cashflow				
	At 1 January 2020 £m	New borrowings, net of costs £m	Loan issued via subsitution[1] £m	Movement in foreign exchange £m	Amortisation £m	Capitalised interest £m	At 31 December 2020 £m
£428 million subordinated notes	437	–	–	–	(1)	–	436
£450 million Tier 3 subordinated notes	448	–	–	–	1	–	449
US $500 million Tier 2 bonds	334	–	–	(10)	5	–	329
€500 million Tier 2 notes	385	–	–	22	3	–	410
£300 million senior unsecured bond	128	–	–	–	(5)	–	123
Loan due to Standard Life Assurance Limited	288	–	–	–	–	6	294
US $750 million Contingent Convertible Tier 1 notes	–	566	–	(23)	2	–	545
£500 million Tier 2 notes	–	483	–	–	1	–	484
US $500 million Fixed Rate Reset Tier 2 notes	–	396	–	(32)	–	–	364
£500 million 5.867% Tier 2 subordinated notes	–	–	559	–	(3)	–	556
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	–	–	275	–	(3)	–	272
£250 million 4.016% Tier 3 subordinated notes	–	–	259	–	–	–	259
	2,020	1,445	1,093	(43)	–	6	4,521

1 Loans issued via substitution are a non-cashflow item as consideration was the transfer of loans and deposits (refer to note 10).

	Cash		Non-Cashflow						
	At 1 January 2019 £m	New borrowings, net of costs £m	Repayments £m	Loan issued via subsitution[1] £m	New borrowings net of issue costs[2] £m	Movement in foreign exchange £m	Amortisation £m	Capitalised interest £m	At 31 December 2019 £m
£428 million subordinated notes	439	–	–	–	–	–	(2)	–	437
£450 million Tier 3 subordinated notes	447	–	–	–	–	–	1	–	448
US $500 million Tier 2 bonds	343	–	–	–	–	(13)	4	–	334
€500 million Tier 2 notes	405	–	–	–	–	(24)	4	–	385
£300 million senior unsecured bond	–	–	–	131	–	–	(3)	–	128
£1.25 billion revolving credit facility	–	100	(100)	–	–	–	–	–	–
Loan due to Standard Life Assurance Limited	–	–	–	–	282	–	–	6	288
	1,634	100	(100)	131	282	(37)	4	6	2,020

1 Loans issued via substitution are a non-cashflow item as consideration was the transfer of loans and deposits (refer to note 10).

2 Loan issued to SLAL, a subsidiary undertaking, was in consideration for the transfer to the Company of its investment in SLIDAC.

6. DERIVATIVES

The Company entered into a cross currency swap with another group company in 2018 to hedge against adverse currency movements in respect of the €500 million Tier 2 notes.

In 2019, the Company entered into a forward currency swap with another group company to hedge against adverse currency movements in respect of the €287 million capital injection into SLIDAC.

The Company also entered into a forward currency swap in 2019 to hedge against adverse currency movements in respect of the equity and debt holding in a property investment structure which was transferred to the Company.

During 2020, the Company terminated the derivative instruments that were entered into in 2018 and 2019 and as a result the Company no longer hedges its currency risk exposure arising on foreign denominated investments and borrowings.

The fair value of the derivative financial instruments are as follows:

	Asset		Liability	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Cross currency swap	**–**	–	**–**	31
Forward currency swap	**–**	5	**–**	–
	–	5	**–**	31

Derivative Collateral Arrangements

The accounting policy for collateral arrangements is included in note E4 to the consolidated financial statements.

Assets Accepted

The maximum exposure to credit risk in respect of OTC derivative assets is £nil (2019: £5 million) of which credit risk of £nil (2019: £3 million) is mitigated by use of collateral arrangements (which are settled net after taking account of any OTC derivative liabilities owed by the counterparty).

Assets Pledged

The Company pledges collateral in respect of its OTC derivative liabilities. The value of assets pledged at 31 December 2020 in respect of OTC derivative liabilities of £nil (2019: £34 million) amounted to £nil (2019: £3 million).

7. PROVISIONS

During 2019 the Company recognised two new provisions, a Standard Life transition restructuring provision of £159 million and £13 million in relation to amounts payable to SLA plc under the terms of the Purchase Price Adjustment. During the year £19 million of the restructuring provision was utilised and a further £31 million was released resulting in a provision as at 31 December 2020 of £109 million. Details are included in note G7 to the consolidated financial statements.

8. ACCRUALS AND DEFERRED INCOME

The accounting policy for accruals and deferred income is included in note G11 to the consolidated financial statements.

	2020 £m	2019 £m
Accruals and deferred income	**87**	58
Amount due for settlement after 12 months	**–**	–

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

9. INVESTMENTS IN GROUP ENTITIES

	2020 £m	2019 £m
Cost		
At 1 January	**11,074**	4,146
Additions	**3,162**	6,928
At 31 December	**14,236**	11,074
Impairment		
At 1 January	**(4,146)**	–
Charge for the year	**–**	(4,146)
At 31 December	**(4,146)**	(4,146)
Carrying amount		
At 31 December	**10,090**	6,928

On 22 July 2020, the Company acquired ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for a total consideration of £3,112 million. The consideration consisted of £1,265 million cash and the issue of 277,277,138 shares to Swiss Re Group on 23 July 2020, 144,877,304 shares of which were subsequently transferred to MS&AD Insurance Group Holdings ('MS&AD'). The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

During the year a £50 million capital contribution was paid into SLIDAC which was provided in order to strengthen its capital position following adverse market conditions experienced during the year.

On 21 February 2019, the Company acquired SLIDAC from its subsidiary SLAL, for an initial consideration of £162 million settled in the form of a loan (see note 5) such that its interest in SLIDAC is now directly held. On acquisition, the Company subscribed for an additional share in SLIDAC for a consideration of £250 million. Following the completion of a Part VII transfer of the European branch business from SLAL to SLIDAC, the purchase price for the acquisition of SLIDAC was increased by £120 million, again settled in form of a loan, which increased the carrying value of the Company's investment in SLIDAC to £532 million.

On 18 June 2019, the Company acquired Phoenix Life Holdings Limited from its subsidiaries PGH (LCA) Limited and PGH (LCB) Limited, for a consideration of £3,356 million and also acquired SLAL from Old PGH for a consideration of £2,994 million. The consideration for the acquisition of SLAL was increased by £46 million comprising of £33 million due to Standard Life Aberdeen plc under the deed of indemnity and £13 million under the terms of the Purchase Price Adjustment mechanism included in the Sale and Purchase Agreement agreed as part of the acquisition of the Standard Life Assurance businesses (see note G7 of the consolidated financial statement).

On 12 December 2018, the Company became the ultimate parent undertaking of the Group by acquiring the entire share capital of Old PGH via a share for share exchange. The cost of investment in Old PGH, reflected in the table above, was determined as the carrying amount of the Company's share of the equity of Old PGH on the date of the transaction. The difference between the cost of investment and the market capitalisation of Old PGH immediately before the share for share exchange of £4 million has been recognised as an Other reserve, and is shown as a separate component of equity.

As at 31 December 2020, the market capitalisation of the Company was lower than the net asset value, which was considered to be an indicator that the Company's investments in its subsidiaries may have been impaired as at that date. Where such indicators are identified, an impairment test is performed. In 2020, the recoverable amount of the investments in subsidiaries was determined to be greater than carrying value. In 2019, impairments of £4,146 million were recognised to align the carrying value of certain investments to their recoverable amount.

The value in use has been used as the recoverable amount and this has been determined using the present value of the future cash flows of the Company's subsidiaries including the in-force long-term business and the service companies. The cash flows used in this calculation are consistent with those adopted by management in the operating plan and, beyond the period of this plan, reflect the anticipated run-off of the in-force life insurance business. Future cash flows have been valued using discount rates which reflect the risks inherent to each cash flow. For the other subsidiaries, the value in use has been determined using net assets values.

For a list of principal Group entities, refer to note H5 of the consolidated financial statements. The entities directly held by the Company are separately identified.

10. LOANS AND DEPOSITS

	Carrying value 2020 £m	Carrying value 2019 £m	Fair value 2020 £m	Fair value 2019 £m
Loans due from PLHL (note a)	**1,214**	1,220	**1,403**	1,363
Loans due from Phoenix Group Employee Benefit Trust (note b)	**6**	7	**6**	7
Loan due from ReAssure Group plc (note c)	**704**	–	**710**	–
Loans and deposits due from Group entities	**1,924**	1,227	**2,119**	1,370
Fixed term deposits (note d)	**195**	–	**195**	–
Total loans and deposits	**2,119**	1,227	**2,314**	1,370
Amounts due after 12 months	**1,924**	1,227		

All loans and deposit balances are due from Group entities and are measured at amortised cost using the effective interest method. The fair value of these loans and deposits are also disclosed.

a) On 12 December 2018, the Company was assigned a £428 million subordinated loan by Phoenix Life Holdings Limited ('PLHL'). The loan accrues interest at a rate of 6.675% and matures on 18 December 2025. This loan was initially recognised at fair value of £439 million and is accreted to par over the period to 2025. At 31 December 2020, the carrying value of the loan was £437 million (2019: £438 million).

On 12 December 2018, the Company was assigned a £450 million subordinated loan by PLHL. The loan accrues interest at a rate of 4.175% and matures on 20 July 2022. This loan was initially recognised at fair value of £447 million and is accreted to par over the period to 2022. At 31 December 2020, the carrying value of the loan was £449 million (2019: £448 million).

On 12 December 2018, the Company was assigned a US $500 million loan by PLHL due 2027 with a coupon of 5.375%. This loan was initially recognised at fair value of £349 million and is accreted to par over the period to 2027. Movement in foreign exchange during the period decreased the carrying value by £10 million (2019: £13 million). At 31 December 2020, the carrying value of the loan was £328 million (2019: £334 million).

b) On 18 June 2019, the Company was assigned an interest free facility arrangement with Phoenix Group Employee Benefit Trust ('EBT'). As at 31 December 2020, the carrying value of the loan was £6 million (2019: £7 million). In 2020, an additional £7million (2018: £4 million) was drawn down against this facility. The loan is fully recoverable until the point the awards held in the EBT vest to the participants, at which point the loan is reviewed for impairment. Any impairments are determined by comparing the carrying value to the estimated recoverable amount of the loan. Following the vesting of awards in 2020 £8million (2019: £3 million) of the loan has been written off.

c) On 22 July 2020, the Company entered into a £1,099 million loan agreement with ReAssure Group Plc, a Group subsidiary as consideration for the transfer of subordinated loans notes into the Company. The loan accrues interest at a rate of 6 month LIBOR plus 1.30% and matures on 31 December 2025. During the year, the Company received a partial repayment of £400 million. As at 31 December 2020, the carrying value of the loan was £704 million, and also includes £5 million of interest that has been capitalised.

d) Fixed term deposits include holdings in bank deposits with an initial maturity of more than 3 months at the date the deposit was made.

None of the loans are considered to be past due.

For the purposes of the additional fair value disclosures for assets recognised at amortised cost, all loans and deposits are categorised as Level 3 financial instruments. The fair value of loans and deposits with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Details of the factors considered in determination of fair value are included in note E2 to the consolidated financial statements.

11. FINANCIAL ASSETS

	2020 £m	2019 £m
Financial assets at fair value through profit or loss		
Derivatives	**–**	5
Equities	**–**	2
Debt securities	**1**	43
Collective investment schemes	**194**	200
	195	250
Amounts due after 12 months	**1**	43

Determination of fair value and fair value hierarchy of financial assets

Details of the factors considered in determination of the fair value are included in note E2 to the consolidated financial statements.

Year ended 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss:				
Debt securities	**–**	**–**	**1**	**1**
Collective investment schemes	**194**	**–**	**–**	**194**
	194	**–**	**1**	**195**

11. FINANCIAL ASSETS continued

Year ended 31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivatives	–	5	–	5
Equities	–	–	2	2
Debt securities	–	–	43	43
Collective investment schemes	200	–	–	200
	200	5	45	250

There were no transfers between levels in both 2020 and 2019.

Level 3 financial instrument sensitivities

The investment in equity and debt securities is in respect of equity and debt holdings in a property investment structure which was transferred to the Company via an in-specie dividend received from Old PGH during 2019. The holding was disposed of during the year however a balance of £1 million remains in respect of a potential repayment of cash reserves that may be due to the Company. The amount recognised has taken account of both the uncertain nature of the value of the proceeds and when they will be received.

The structure was valued as a whole on a discounted cash flow basis and allocated to the debt and equity components in order of priority. The valuation is sensitive to the discount rate applied. In 2019, a decrease in the discount rate of 175bps would increase the value by £9 million) whilst an increase of 200bps would decrease the value by £6 million).

12. DEFERRED TAX

The accounting policy for tax assets and liabilities is included in note G8 to the consolidated financial statements.

Movement in Deferred Tax Asset

	1 January 2020 £m	Credit for the year £m	31 December 2020 £m
Provisions and other temporary differences	**15**	**1**	**16**

	1 January 2019 £m	Credit for the year £m	31 December 2019 £m
Provisions and other temporary differences	–	15	15

The standard rate of UK corporation tax for the accounting period is 19% (2019: 19%).

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, deferred tax assets, where provided, are reflected at the rate of 19%.

13. CASH AND CASH EQUIVALENTS

The accounting policy for cash and cash equivalents is included in note G6 to the consolidated financial statements.

	2020 £m	2019 £m
Bank and cash balances	**4**	45

14. CASH FLOWS FROM OPERATING ACTIVITIES

	2020 £m	2019 £m
Profit for the year before tax	**222**	1,598
Non-cash movements in profit for the year before tax:		
Dividend income from other Group entities	**–**	(5,640)
Impairment of investment in subsidiary	**–**	4,146
Impairment of loan due from subsidiary	**8**	3
Investment income	**(78)**	(79)
Finance costs	**189**	103
Fair value (gains)/losses on financial assets	**(45)**	19
Foreign exchange movement on borrowings at amortised cost	**(43)**	(37)
Share-based payment charge	**13**	11
Increase in investment assets	**(116)**	(236)
Net (increase)/decrease in working capital	**(221)**	523
Cash (utilised)/generated by operations	**(71)**	411

15. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital, the Tier 1 Notes and all reserves as calculated in accordance with IFRSs, as set out in the statement of changes in equity. Under English company law, dividends must be paid from distributable profits. As the ultimate parent undertaking of the Group, the Company manages its capital to ensure that it has sufficient distributable profits to pay dividends in accordance with its dividend policy.

At 31 December 2020, total capital was £7,541 million (2019: £5,849 million). The movement in capital in the period comprises the total comprehensive income for the period attributable to owners of £256million (2019: £1,643 million income), dividends paid of £403 million (2019: £338 million), coupon paid on Tier 1 Notes, net of tax relief of £23 million (2019: £23 million), credit to equity for equity-settled share-based payments of £13 million (2019: £11 million), and issue of ordinary share capital of £1,849 million (2019: £2 million).

In addition, the Group also manages its capital on a regulatory basis as described in note I3 to the consolidated financial statements.

The principal risks and uncertainties facing the Company are interest rate risk, liquidity risk, foreign currency risk and credit risk. During the year, the Company terminated the hedges that were entered into in 2018 and 2019. As a result, the Company no longer hedges its currency risk exposure arising on foreign currency hybrid debt.

Details of the Group's financial risk management policies are outlined in note E6 to the consolidated financial statements.

Credit risk management practices

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

2020	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and deposits (note 10)	**N/A**	**Performing**	**12 month ECL**	**2,119**	**–**	**2,119**
Other amounts due from Group entities (note 18)	**N/A**	**Performing**	**12 month ECL**	**295**	**–**	**295**
Cash and cash equivalents (note 13)	**A**	**N/A**	**12 month ECL**	**4**	**–**	**4**

2019	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and deposits (note 10)	N/A	Performing	12 month ECL	1,227	–	1,227
Other amounts due from Group entities (note 18)	N/A	Performing	12 month ECL	198	–	198
Cash and cash equivalents (note 13)	A	N/A	12 month ECL	45	–	45

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also, forward-looking analysis.

Loans and deposits – The Company is exposed to credit risk relating to loans and deposits from other Group companies, which are considered low risk. Given their low risk, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing whether there have been any historic defaults, by reviewing the going concern assessment of the borrower and the ability of the Group to prevent a default by providing a capital or cash injection. Specific considerations for the loan to the EBT are discussed in note 10.

Amounts due from other Group entities – The credit risk from activities undertaken in the normal course of business is considered to be extremely low risk. Given their low risk, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing past credit impairments, history of defaults and the long term stability of the Group.

Cash and cash equivalents – The Company's cash and cash equivalents are held with bank and financial institution counterparties, which have investment grade 'A' credit ratings. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default, and therefore the impact to the net carrying amount shown in the table above is not material.

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed into liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

16. SHARE-BASED PAYMENTS

For detailed information on the long-term incentive plans, sharesave schemes and deferred bonus share schemes refer to note I1 in the consolidated financial statements.

17. DIRECTORS' REMUNERATION

Details of the remuneration of the Directors of Phoenix Group Holdings plc is included in the appendix to the Directors' Remuneration Report on pages 124 to 158 of the Annual Report and Accounts.

18. RELATED PARTY TRANSACTIONS

The Company has related party transactions with Group entities and its key management personnel. Details of the total compensation of key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the Executive and Non-Executive Directors, are included in note I4 to the consolidated financial statements.

On 31 August 2018, SLA plc took a 19.98% equity stake in the Enlarged Group, and as a result became a related party of the Group. As at 31 December 2020 the SLA plc holding is 14.42%. SLA plc is considered to have a significant influence over the Group due to their equity stake, representation on the Board of Directors and the existence of a strategic partnership between the two parties.

During the year ended 31 December 2020 the Company entered into the following transactions with Group entities and SLA plc:

	2020 £m	2019 £m
Dividend income from other Group entities	**400**	5,989
Interest income from other Group entities	**73**	77
	473	6,066
Impairment of investment in subsidiary	**–**	4,146
Impairment of loan due from subsidiary	**8**	3
Unrealised loss on internal cross currency swap	**–**	27
Expense to other Group entities	**119**	235
Interest expense to other Group entities	**7**	12
	134	4,423
Dividends paid to SLA plc	**67**	67

Amounts due from related parties at the end of the year:

	2020 £m	2019 £m
Loans due from Group entities	**1,924**	1,227
Forward currency swap	**–**	3
Other amounts due from Group entities	**295**	198
	2,219	1,428
Amount due for settlement after 12 months	**1,924**	1,227

Amounts due to related parties at the end of the year:

	2020 £m	2019 £m
Loans due to Group entities	**294**	288
Cross currency swap	**–**	31
Other amounts due to Group entities	**448**	533
	742	852
Amount due for settlement after 12 months	**294**	288

19. AUDITOR'S REMUNERATION

Details of auditor's remuneration, for Phoenix Group Holdings plc and its subsidiaries, is included in note C4 to the consolidated financial statements.

20. EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting date are included in note I7 to the consolidated financial statements.

N LYONS
A BRIGGS
R THAKRAR
A BARBOUR
K GREEN
H IIOKA
W MAYALL
C MINTER
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON
M TUMILITY

7 March 2021

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies, and it is stated net of derivative liabilities. It excludes other Group assets such as cash held in the holding and management service companies and the assets held by the non-controlling interests in consolidated collective investment schemes.

The following table provides an overview of the exposure by asset category of the Group's life companies' shareholder and policyholder funds:

31 December 2020

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	5,908	1,854	8,336	10,246	26,344
Debt securities – gilts and foreign government bonds	6,999	386	22,295	14,458	44,138
Debt securities – other government and supranational	2,257	294	2,220	7,815	12,586
Debt securities – infrastructure loans	1,564	–	–	–	1,564
Debt securities – UK local authority loans[4]	696	–	–	–	696
Debt securities – private placements[5]	3,330	1	262	51	3,644
Debt securities – other bonds	20,371	1,587	18,322	24,412	64,692
	35,217	2,268	43,099	46,736	127,320
Equity securities	113	45	19,621	106,120	125,899
Property investments	81	30	2,054	6,409	8,574
Equity release mortgages	3,484	–	–	–	3,484
Commercial real estate loans	1,075	–	–	–	1,075
Income strips	–	–	–	692	692
Other investments[6]	923	711	4,916	10,009	16,559
At 31 December 2020	**46,801**	**4,908**	**78,026**	**180,212**	**309,947**
Cash and cash equivalents in Group holding companies					1,055
Cash and financial assets in other Group companies					776
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,170
Total Group consolidated assets					**315,948**
Comprised of:					
Investment property					7,128
Financial assets					298,823
Cash and cash equivalents					10,998
Derivative liabilities					(1,001)
					315,948

1 Includes assets where shareholders of the life companies bear the investment risk.

2 Includes assets where policyholders bear most of the investment risk.

3 This information is presented on a look through basis to underlying funds where available.

4 Total UK local authority loans of £696 million include £646 million classified as Level 3 debt securities in the fair value hierarchy.

5 Total private placements of £3,644 million include £2,351 million classified as Level 3 debt securities in the fair value hierarchy.

6 Includes policy loans of £10 million, other loans of £344 million, net derivative assets of £6,083 million, reinsurers' share of investment contracts of £9,559 million and other investments of £563 million.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
CONTINUED

31 December 2019

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	3,486	2,009	4,788	6,391	16,674
Debt securities – gilts and foreign government bonds	3,911	342	20,644	9,095	33,992
Debt securities – other government and supranational	1,280	297	3,252	4,512	9,341
Debt securities – infrastructure loans	341	–	–	–	341
Debt securities – UK local authority loans	262	–	–	–	262
Debt securities – private placements[4]	1,370	–	131	20	1,521
Debt securities – other bonds	10,485	1,582	14,314	21,485	47,866
	17,649	2,221	38,341	35,112	93,323
Equity securities	145	48	15,962	72,959	89,114
Property investments	92	37	1,890	5,335	7,354
Equity release mortgages	2,781	–	–	–	2,781
Commercial real estate loans	388	–	–	–	388
Income strips	–	–	–	690	690
Other investments[5]	339	386	3,738	9,207	13,670
At 31 December 2019	24,880	4,701	64,719	129,694	223,994
Cash and cash equivalents in Group holding companies					275
Cash and financial assets in other Group companies					616
Financial assets held by the non-controlling interest in consolidated collective investment schemes					3,661
Total Group consolidated assets					228,546
Comprised of:					
Investment property					5,943
Financial assets					218,871
Cash and cash equivalents					4,466
Derivative liabilities					(734)
					228,546

1 Includes assets where shareholders of the life companies bear the investment risk.

2 Includes assets where policyholders bear most of the investment risk.

3 This information is presented on a look through basis to underlying funds where available.

4 Total private placements of £1,521 million include £1,147 million classified as Level 3 debt securities in the fair value hierarchy.

5 Includes policy loans of £10 million, other loans of £284 million, net derivative assets of £3,976 million, reinsurers' share of investment contracts of £8,881 million and other investments of £519 million.

The following table provides a reconciliation of the total life company assets to the Assets under Administration ('AUA') as at 31 December 2020 detailed in the Business Review on page 50:

	2020 £bn	2019 £bn
Total Life Company assets	**309.9**	224.0
Off-balance sheet AUA[1]	**37.5**	35.1
Less: Standard Life Trustee Investment Plan assets[2]	**(9.7)**	(10.8)
Assets Under Administration	**337.7**	248.3

1 Off-balance sheet AUA represents assets held in respect of certain Group Self-Invested Personal Pension products where the beneficial ownership interest resides with the customer (and which are therefore not recognised in the statement of consolidated financial position) but on which the Group earns fee revenue.

2 Assets held within the Standard Life Trustee Investment Plan product are excluded from AUA as materially all profits accrue to third party investment managers.

All of the life companies' debt securities are held at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: recognition and Measurement*, and therefore already reflect any reduction in value between the date of purchase and the reporting date.

The life companies have in place a comprehensive database that consolidates credit exposures across counterparties, geographies and business lines. This database is used for credit monitoring, stress testing and scenario planning. The life companies continue to manage their balance sheets prudently and have taken extra measures to ensure their market exposures remain within risk appetite.

For each of the life companies' significant financial institution counterparties, industry and other data has been used to assess the exposure of the individual counterparties. As part of the Group's risk appetite framework and analysis of shareholder exposure to a potential worsening of the economic situation, this assessment has been used to identify counterparties considered to be most at risk from defaults. The financial impact on these counterparties, and the contagion impact on the rest of the shareholder portfolio, is assessed under various scenarios and assumptions. This analysis is regularly reviewed to reflect the latest economic outlook, economic data and changes to asset portfolios. The results are used to inform the Group's views on whether any management actions are required.

The table below shows the Group's market exposure analysed by credit rating for the debt securities held in the shareholder and non-profit funds.

Sector analysis of shareholder bond portfolio	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Total £m
Industrials	–	81	306	978	47	1,412
Basic materials	–	–	201	40	–	241
Consumer, cyclical	12	484	388	238	82	1,204
Technology and telecoms	175	288	719	782	–	1,964
Consumer, non-cyclical	270	309	1,239	549	–	2,367
Structured finance	–	–	56	–	–	56
Banks[1]	857	805	3,328	695	66	5,751
Financial services	92	279	350	246	2	969
Diversified	–	7	31	–	–	38
Utilities	28	130	2,153	1,660	–	3,971
Sovereign, sub-sovereign and supranational[2]	1,421	8,149	483	85	11	10,149
Real estate	37	171	2,856	321	104	3,489
Investment companies	33	193	–	4	–	230
Insurance	–	573	463	84	12	1,132
Oil and gas	–	212	350	83	–	645
Collateralised debt obligations	–	8	–	–	–	8
Private equity loans	–	–	22	5	–	27
Infrastructure	–	25	388	1,004	147	1,564
At 31 December 2020	**2,925**	**11,714**	**13,333**	**6,774**	**471**	**35,217**

1 The £5,751 million total shareholder exposure to bank debt comprised £4,316 million senior debt and £1,435 million subordinated debt.

2 Includes £696 million reported as UK local authority loans and £197 million reported as private placements in the summary table on page 303.

ADDITIONAL LIFE COMPANY ASSET DISCLOSURES
CONTINUED

Sector analysis of shareholder bond portfolio	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Total £m
Industrials	–	141	352	273	18	784
Basic materials	–	–	22	59	8	89
Consumer, cyclical	–	206	156	140	35	537
Technology and telecoms	38	111	249	352	37	787
Consumer, non-cyclical	59	174	407	257	42	939
Structured finance	–	–	56	–	–	56
Banks	367	477	1,349	424	13	2,630
Financial services	147	415	469	101	12	1,144
Diversified	–	7	17	–	5	29
Utilities	26	–	1,207	540	70	1,843
Sovereign, sub-sovereign and supranational[1]	811	4,383	210	21	28	5,453
Real estate	44	109	1,663	244	57	2,117
Investment companies	10	80	27	4	–	121
Insurance	–	269	139	43	22	473
Oil and gas	–	110	115	56	16	297
Collateralised debt obligations	–	9	–	–	–	9
Infrastructure	–	–	60	281	–	341
At 31 December 2019	1,502	6,491	6,498	2,795	363	17,649

1 Includes £262 million reported as UK local authority loans in the summary table on page 304.

The following table sets out the debt security exposure by country of the shareholder and non-profit funds of the life companies:

Analysis of shareholder debt security exposure by country	**Sovereign, sub-sovereign and supranational 2020 £m**	**Corporate and other 2020 £m**	**Total 2020 £m**	Sovereign, sub-sovereign and supranational 2019 £m	Corporate and other 2019 £m	Total 2019 £m
UK	**8,077**	**13,018**	**21,095**	4,452	6,320	10,772
Supranationals	**660**	**–**	**660**	544	–	544
USA	**217**	**5,614**	**5,831**	–	1,674	1,674
Germany	**188**	**962**	**1,150**	155	562	717
France	**339**	**1,440**	**1,779**	59	783	842
Netherlands	**182**	**728**	**910**	23	503	526
Italy	**–**	**213**	**213**	–	143	143
Ireland	**–**	**155**	**155**	–	37	37
Spain	**–**	**183**	**183**	–	148	148
Luxembourg	**86**	**1**	**87**	–	–	–
Belgium	**31**	**152**	**183**	5	127	132
Australia	**–**	**577**	**577**	1	336	337
Canada	**65**	**275**	**340**	–	169	169
Mexico	**6**	**219**	**225**	2	190	192
Other – non-Eurozone	**189**	**1,238**	**1,427**	180	1,093	1,273
Other – Eurozone	**109**	**293**	**402**	32	111	143
Total shareholder debt securities	**10,149**	**25,068**	**35,217**	5,453	12,196	17,649

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The PGH plc surplus at 31 December 2020 is £5.3 billion (2019: £3.1 billion).

	31 December 2020 Estimated £bn	31 December 2019 £bn
Own Funds	**16.8**	10.8
SCR	**(11.5)**	(7.7)
Surplus	**5.3**	3.1

The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £0.1 billion lower.

Calculation of Group Solvency

The Solvency II regulations set out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method).

Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses acquired in 2018 and Method 1 is used for all other entities of the Group (including the ReAssure entities acquired in 2020). The Group has approval to use a combination of Methods 1 and 2 for consolidating its Group solvency results.

Composition of Own Funds

Own Funds items are classified into different Tiers based on the features of the specific items and the extent to which they possess the following characteristics, with Tier 1 being the highest quality:

- availability to be called up on demand to fully absorb losses on a going-concern basis, as well as in the case of winding-up ('permanent availability'); and
- in the case of winding-up, the total amount that is available to absorb losses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

PGH plc's total Own Funds are analysed by Tier as follows:

	31 December 2020 Estimated £bn	31 December 2019 £bn
Tier 1 – Unrestricted	**11.7**	8.3
Tier 1 – Restricted	**1.1**	0.5
Tier 2	**3.2**	1.5
Tier 3	**0.8**	0.5
Total Own Funds	**16.8**	10.8

PGH plc's unrestricted Tier 1 capital accounts for 70% (2019: 77%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Restricted Tier 1 capital comprises the contingent convertible Tier 1 Notes issued in January 2020 and the Tier 1 Notes issued in April 2018, the terms of which enable the instruments to qualify as restricted Tier 1 capital for regulatory reporting purposes.

Tier 2 capital is comprised of subordinated notes whose terms enable them to qualify as Tier 2 capital for regulatory reporting purposes.

Tier 3 items include the Tier 3 subordinated notes of £0.7 billion (2019: £0.4 billion) and the deferred tax asset of £0.1 billion (2019: £0.1 billion).

Breakdown of SCR

The Group operates two PRA approved Internal Models, a Phoenix Internal Model covering all the pre-acquisition Phoenix entities and a Standard Life Internal Model which covers the acquired Standard Life Assurance entities, with the exception of the Irish entity, Standard Life International Designated Activity Company ('SLIDAC'). SLIDAC and the acquired ReAssure businesses calculate their capital requirements in accordance with the Standard Formula. An analysis of the pre-diversified SCR of PGH plc is presented below:

	31 December 2020 Estimated			31 December 2019		
	Phoenix Internal Model %	Standard Life Internal Model %	ReAssure and SLIDAC Standard Formula %	Phoenix Internal Model %	Standard Life Internal Model %	SLIDAC Standard Formula %
Longevity	**27**	**18**	**21**	26	16	4
Credit	**23**	**12**	**24**	19	12	23
Persistency	**12**	**25**	**20**	12	28	25
Interest rates	**7**	**6**	**10**	8	5	1
Operational	**4**	**8**	**4**	6	9	12
Swap spreads	**3**	**1**	**–**	2	1	–
Property	**10**	**1**	**–**	12	1	–
Other market risks	**3**	**16**	**10**	5	15	30
Other non-market risks	**11**	**13**	**11**	10	13	5
Total pre-diversified SCR	**100**	**100**	**100**	100	100	100

The principal risks of the Group are described in detail in note E6 and F4 in the IFRS consolidated financial statements.

MINIMUM CAPITAL REQUIREMENTS

Under the Solvency II regulations, the Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. For Groups this is referred to as the Minimum Consolidated Group SCR ('MGSCR').

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or €3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

The MGSCR represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group.

The Eligible Own Funds to cover the MGSCR is subject to quantitative limits as shown below:

- the Eligible amounts of Tier 1 items should be at least 80% of the MGSCR; and
- the Eligible amounts of Tier 2 items shall not exceed 20% of the MGSCR.
- PGH plc's MGSCR at 31 December 2020 is £1.9 billion (2019: £1.1 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £8.3 billion (2019: £4.3 billion) leaving an excess of Eligible Own Funds over MGSCR of £6.4 billion (2019: £3.2 billion), which translates to an MGSCR coverage ratio of 431% (2019: 386%).

The MCR for the Method 2 part of the Group is £1.4 billion (2019: £1.2 billion), with Eligible Own Funds of £4.9 billion (2019: £4.9 billion), leaving an excess of Eligible Own Funds over MCR of £3.5 billion (2019: £3.7 billion), which translates to an MCR coverage ratio of 359% (2019: 394%).

ALTERNATIVE PERFORMANCE MEASURES

The Group assesses its financial performance based on a number of measures. Some measures are management derived measures of historic or future financial performance, position or cash flows of the Group; which are not defined or specified in accordance with relevant financial reporting frameworks such as International Financial Reporting Standards ('IFRS') or Solvency II. These measures are known as Alternative Performance Measures ('APMS').

APMs are disclosed to provide stakeholders with further helpful information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to IFRS and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 46 and the definitions of all APMs are included in the glossary on pages 313 to 316.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Assets under Administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 305.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 179 and 180 and the analysis of borrowings note on page 216.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within our UK Open and Europe segments, and from the writing of bulk purchase annuities within our Heritage segment. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.
Life Company Free Surplus	The Solvency II surplus of the Life Companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section page 54 for further analysis of the solvency positions of the Life Companies.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Long-term Free Cash ('LTFC')	Long-term Free Cash ('LTFC') is comprised of long-term cash to emerge from in-force business, plus holding company cash, less an allowance for costs associated with in-flight mergers and acquisitions and the related transition activities, and a deduction for shareholder debt outstanding.	LTFC provides a measure of the Group's total long-term cash available for operating costs, interest, growth and shareholder returns. Increases in LTFC will be driven by sources of long-term cash i.e. new business and over-delivery of management actions. Decreases in LTFC will reflects the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends.	The individual components of LTFC are disclosed in the Business review, page 49. The metric is not directly reconcilable to the financial statements as it includes a significant component relating to cash that is expected to emerge in the future. Holding company cash included within LTFC is consistent with the holding company cash and cash equivalents as disclosed in the cash section of the business review. Shareholder debt outstanding reflects the face value of the shareholder borrowings disclosed in note E5 of the IFRS financial statements.
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day one value arising on the writing of new business in the UK Open and Europe segments, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 51.
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, Group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on pages 47 to 58 and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 303.
Operating profit	Operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in note B1.2 to the IFRS consolidated financial statements.	This measure provides a more representative view of the Group's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Group by identifying and analysing non-operating items.	A reconciliation of operating profit to the IFRS result before tax attributable to owners is included in the business review on page 55 and in the notes to the financial statements on page 190.
Shareholder Capital Coverage Ratio	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR.	The unsupported with-profit funds and Group pension funds do not contribute to the Group Solvency II surplus. However, the inclusion of related Own Funds and SCR amounts dampens the implied Solvency II capital ratio. The Group therefore focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group.	Further details of the Shareholder Capital Coverage Ratio and its calculation are included in the business review on page 54.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

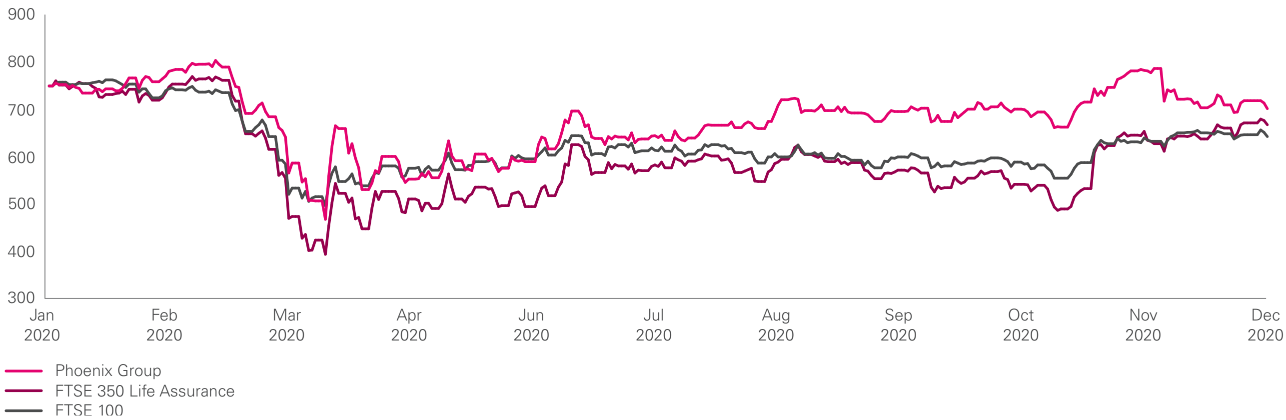
Our Annual General Meeting ('AGM') will be held on 14 May 2021 at 10am.

The voting results for our 2021 AGM, including proxy votes and votes withheld, will be available on the Group's website shortly after the meeting.

SHARE PRICE PERFORMANCE

Phoenix Group Holdings plc share price performance

Price pence per share (rebased to Phoenix)



SHAREHOLDER PROFILE AS AT 31 DECEMBER 2020

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	**602**	**26.40**	**282,426**	**0.03**
1,001–5,000	**724**	**31.75**	**1,780,834**	**0.18**
5,001–10,000	**175**	**7.68**	**1,235,108**	**0.12**
10,001–250,000	**531**	**23.29**	**36,781,383**	**3.68**
250,001–500,000	**75**	**3.29**	**27,039,157**	**2.71**
500,001 and above	**173**	**7.59**	**932,113,236**	**93.28**
Total	**2,280**		**999,232,144**	

SHAREHOLDER SERVICES

Managing your shareholding

Our registrar, Computershare, maintains the Company's register of members. Shareholders may request a hard copy of this Annual Report from our registrar and if you have any further queries in respect of your shareholding please contact them directly using the contact details set out below.

Registrar details

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ
Shareholder helpline number +44 (0) 370 702 0181
Fax number +44 (0) 370 703 6116
www.investorcentre.co.uk/contactus

Dividend mandates

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account.

Access Computershare's web-based enquiry service www.investorcentre.co.uk to download forms such as a dividend mandate form or submit dividend mandate details online; view details of your Phoenix Group shareholding and recent dividend payments; update your address details and register for shareholder electronic communications to receive notification of Phoenix Group shareholder mailings by email.

Alternatively, contact Computershare using the details above.

Scrip dividend alternative

The Company does not currently offer a scrip dividend alternative.

Warning to shareholders

Over recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company.

If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the Financial Conduct Authority ('FCA') before getting involved by visiting www.fca.org.uk/firms/systems-reporting/register;
- report the matter to the FCA by calling the FCA Consumer Helpline on 0800 111 6768; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme ('FSCS'). The FCA can also be contacted by completing an online form available at www.fca.org.uk/consumers/report-scam-unauthorised-firm. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website available at www.fca.org.uk/consumers.

SHARE PRICE

You can access the current share price of Phoenix Group Holdings plc on the Group's website together with electronic copies of the Group's financial reports and presentations at www.thephoenixgroup.com/investor-relations.aspx.

ORDINARY SHARES – 2020 FINAL DIVIDEND

Ex-dividend date	**1 April 2021**
Record date	**6 April 2021**
Payment date for the recommended final dividend	**18 May 2021**

GROUP FINANCIAL CALENDAR FOR 2021

Annual General Meeting	**14 May 2021**
Announcement of unaudited six months' Interim Results	**To be confirmed**

GLOSSARY

ABS	Asset Backed Securities – A collateralised security whose value and income payments are derived from a specified pool of underlying assets
Acquired value in force ('AVIF')	The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of, or investment in, a business
ALM	Asset Liability Management – Management of mismatches between assets and liabilities within risk appetite
Alternative Performance Measure	An Alternative Performance Measure ('APM') is a financial measure of historic or future financial performance, financial position or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. All APMs are defined within this glossary and the APM section on page 309
Annuity policy	A policy that pays out regular benefit amounts, either immediately and for the remainder of a policyholder's lifetime (immediate annuity), or deferred to commence at some future date (deferred annuity)
Asset management	The management of assets using a structured approach to guide the act of acquiring and disposing of assets, with the objective of meeting defined investment goals and maximising value for investors, including policyholders
Assets under administration	Assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers
Brexit	The vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016
CAGR	Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year
Climate Biennial Exploratory Scenario exercise (CBES)	The Bank of England's exercise to test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks
Climate-related risks	The potential negative impacts of climate change on an organisation
Climate-related opportunities	The potential positive impacts of climate change on an organisation. Efforts to adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings and the development of new products and services
Closed life fund	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders
Customer	Number of customers is measured as number of lead policyholders. A customer could be a lead policyholder on more than one policy and some policies could have more than one customer, therefore our customer number is approximate
EBT	Employee Benefit Trust – A trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards. The Company's EBT is the Phoenix Group Holdings plc Employee Benefit Trust
Economic assumptions	Assumptions related to future interest rates, inflation, market value movements and tax
EEA	European Economic Area – Established on 1 January 1994 and is an agreement between Norway, Iceland, Liechtenstein and the European Union. It allows these countries to participate in the EU's single market without joining the EU
ESG	Environmental, social, and governance criteria are a set of standards for a company's operations that investors use to screen potential investments: how a company performs as a steward of nature; how it manages relationships with employees, suppliers, customers, and the communities where it operates; and a company's leadership, executive pay, audits, internal controls and shareholder rights
Experience variances	Current period differences between the actual experience incurred and the assumptions used in the calculation of IFRS insurance liabilities
Financial leverage	Calculated by Phoenix using Fitch Ratings stated methodology as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent adjusted to exclude goodwill, the unallocated surplus and the Tier 1 Notes
Financial Reporting Council	The UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment

Free surplus	The amount of capital held in life companies in excess of that needed to support their regulatory Solvency Capital Requirement, plus the capital required under the Board approved capital management policy
FCA	Financial Conduct Authority – The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers
FOS	Financial Ombudsman Service – An ombudsman established in 2000, and given statutory powers in 2001 by the Financial Services and Markets Act 2000, to help settle disputes between consumers and UK-based businesses providing financial services
GAR	Guaranteed Annuity Rate – A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate
Greenhouse Gas (GHG) emissions	GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change
HMRC	HM Revenue and Customs
Heritage	The Group's business segment where products are no longer marketed to customers, for example with-profits and many legacy unit linked life and pension products
Holding companies	Refers to Phoenix Group Holdings plc, Phoenix Group Holdings, PGH Capital plc, Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (LCA) Limited, PGH (LCB) Limited and Pearl Life Holdings Limited
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board
Incremental long-term cash generation	Represents the increase in the expected future operating companies' cash generation to arise as a result of new business transacted in a period. It excludes 'Day 1' acquisition costs and is stated on an undiscounted basis
In-force	Long-term business written before the period end and which has not terminated before the period end
Inherited estate	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies written into the non-profit fund, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees
Intergovernmental Panel on Climate Change (IPCC)	The United Nations body created to provide policymakers with regular scientific assessments on climate change, its implications and potential future risks, as well as to put forward adaptation and mitigation options
LIBOR	London Interbank Offer Rate – The average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another
Long-term Free Cash ('LTFC')	A measure of the Group's long-term cash available for operating costs, interest, growth and shareholder returns. LTFC is comprised of long-term cash to emerge from in-force business plus holding company cash less M&A and transition costs and shareholder debt outstanding
LTIP	Long-Term Incentive Plan – The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy
Minimum Capital Requirements ('MCR')	MCR is the minimum amount of capital that the Group needs to hold to cover its risks under the Solvency II regulatory framework
MSA	Management Services Agreement – Contracts that exist between Phoenix Life and management services companies or between management services companies and their outsource partners
Net-zero carbon	A state where no incremental greenhouse gases are added to the atmosphere, with remaining emissions output being balanced by the removal of carbon from the atmosphere
Network for Greening the Financial System (NGFS)	A group of central banks, supervisors and observers committed to sharing best practices, contributing to the development of climate and environment-related risk management in the financial sector and mobilising mainstream finance to support the transition towards a sustainable economy

New business contribution
Represents the increase in Solvency II shareholder Own Funds arising from new business written in the year (net of associated tax), adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk free rate

Non-economic assumptions
Assumptions related to future levels of mortality, morbidity, persistency and expenses

Non-profit fund
A fund which is not a with-profit fund, where risks and rewards of the fund fall wholly to shareholders

Open
The Group's business segment where products are actively marketed to new and existing customers

Operating companies
Refers to the trading companies within Phoenix Life

Operating companies' cash generation
Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies

Operating profit
Operating profit is a non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it is based on expected long-term investment returns

Operations intensity metrics
Metrics based on Scopes 1 and 2 emissions within Phoenix Group's occupied premises

Origo
An electronic pensions transfer system

Own funds
Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed tiering limits and transferability restrictions to Basic Own Funds

Own Risk and Solvency Assessment (ORSA)
The processes undertaken to provide a forward looking assessment of the Group's risk and capital profile, under normal and stress scenarios, as a result of its proposed business strategy and Annual Operating Plan

Paris Agreement
A legally binding international treaty on climate change. It was adopted by 196 parties at COP 21 in Paris on 12 December 2015. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to pre-industrial levels

Partial internal model
The model used to calculate the Group Solvency Capital Requirement pursuant to Solvency II. It aggregates outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two

Part VII transfer
The transfer of insurance policies under Part VII of Financial Services and Markets Act 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert

Participating business
See with-profit fund

Peripheral eurozone
Refers to Portugal, Ireland, Italy, Greece and Spain

Physical risks
Risks related to the physical impacts of climate change which can either be acute or chronic. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heatwaves

PRA
Prudential Regulation Authority – The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities

Protection policy
A policy which provides benefits payable on certain events. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness

ReAssure
The companies comprising ReAssure Limited, ReAssure Life Limited and Ark Life Assurance Company dac businesses which were acquired on 22 July 2020

Representative Concentration Pathway (RCP)	A GHG concentration trajectory adopted by the IPCC. The pathways (RCP2.6, RCP4.5, RCP6, and RCP8.5) describe different climate futures, all of which are considered possible depending on the volume of GHGs emitted in the years to come. RCP 2.6 is a very stringent" pathway. According to the IPCC, RCP 2.6 requires that carbon dioxide emissions start declining by 2020 and go to zero by 2100. In RCP 8.5, emissions continue to rise throughout the 21st century. It is generally taken as the basis for worst-case climate change scenario
Rights issue	The rights issue announced by Phoenix on 30 May 2018 and completed on 10 July 2018 in connection with the part financing of the acquisition of the Standard Life Assurance businesses
Scope 1, 2 and 3 emissions	Scope 1 covers direct GHG emissions from owned or controlled sources. Scope 2 covers indirect GHG emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect GHG emissions that occur in the value chain
Shareholder capital coverage ratio	Represents total Eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR
Solvency II	A new regime for the prudential regulation of European insurance companies that came into force on 1 January 2016
Solvency II surplus	The excess of Eligible Own Funds over the Solvency Capital Requirement
Solvency Capital Requirements ('SCR')	SCR relates to the risks and obligations to which the Group is exposed, and is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200-year event'
Standard formula	A set of calculations prescribed by the Solvency II regulations for generating the SCR
Standard Life Assurance businesses	Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as the Standard Life Assurance businesses) acquired by the Group on 31 August 2018
Streamlined Energy and Carbon Reporting (SECR)	Reporting of emissions sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.
Tier 1 notes	The £500 million fixed rate reset perpetual restricted Tier 1 write down Notes issued by Phoenix
Transitional measures on technical provisions	Transitional Measures on Technical Provisions ('TMTP') is an allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime and is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is subject to a mandatory recalculation every two years or on the occurrence of certain defined events
Transition risks	climate-related risks associated with the transition to a low-carbon economy. They include risks related to policy and legal actions, market and economic responses, technology changes and reputational considerations
TSR	Total Shareholder Return – The total return, over a fixed period, to an investor in terms of share price growth and dividends (assuming that dividends paid are re-invested, on the ex-dividend date, in acquiring further shares)
UK corporate governance code	Standards of good corporate governance practice in the UK relating to issues such as board composition and development, remuneration, accountability, audit and relations with shareholders
UKCPT	A property investment company which is domiciled in Guernsey and listed on the London Stock Exchange
Unit-linked policy	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund
With-profit fund	A fund where policyholders are entitled to a share of the profits of the fund. Normally, policyholders receive their share of the profits through bonuses. Also known as a participating fund as policyholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in the with-profit funds in the UK is split 90:10

ONLINE RESOURCES

REDUCING OUR ENVIRONMENTAL IMPACT

In line with our Corporate Responsibility programme, and as part of our desire to reduce our environmental impact, you can view key information on our website.

Go online
www.thephoenixgroup.com

INVESTOR RELATIONS

Our Investor Relations section includes information such as our most recent news and announcements, results presentations, annual and interim reports, share-price performance, AGM and EGM information, UK Regulatory Returns and contact information.

Go online
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Go online
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FORWARD-LOOKING STATEMENTS

The 2020 Annual Report and Accounts contains, and the Group may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates.

As such, actual future gains and losses could differ materially from those that the Group has estimated. Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to:
- domestic and global economic and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union;
- the impact of inflation and deflation;
- market competition;
- changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries;
- risks associated with arrangements with third parties;
- inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and
- the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2020 Annual Report and Accounts. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not be place undue reliance on such forward-looking statements contained in this 2020 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2020 Annual Report and Accounts or any other forward-looking statements or data it may make or publish.

The 2020 Annual Report and Accounts has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the 2020 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

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