Phoenix

Annual Report and Accounts 2022

Phoenix Group Holdings plc

We are proud to be the UK's largest long-term savings and retirement business. With approximately £260 billion of assets under administration, we offer our c.12 million customers a comprehensive range of products across our market-leading pensions, savings and life insurance brands. Together, we're helping people secure a life of possibilities.

Our 2022 reporting suite

You can find out more about our activities, financial performance, sustainability strategy and our progress to becoming a net-zero business by 2050 on our website and in our reporting suite.

Topics covered	Annual Report	Sustainability Report	Climate Report
Business strategy & performance	●		
Risk management	●		
Board governance	●		
Financial performance	●		
Sustainability strategy		●	
Sustainability governance		●	
ESG materiality		●	
Social issues		●	
Climate-related risks		●	●
Climate-related opportunities		●	●

Access the full reporting suite at thephoenixgroup.com →

Find out more on our website →

Performance

Key performance indicators

Operating companies' cash generation
£1,504m
(2021: £1,717m)
REM APM

Group Solvency II surplus (estimated)
£4.4bn
(2021: £5.3bn)
REM

Group Solvency II shareholder capital coverage ratio (estimated)
189%
(2021: 180%)
REM APM

Incremental new business long-term cash generation
£1,233m
(2021: £1,184m)
REM APM

All amounts throughout the report marked with REM are KPIs linked to Executive remuneration. See Directors' remuneration report on page 110.

All amounts throughout the report marked with APM are alternative performance measures. Read more on page 314.

Other performance indicators

Total ordinary dividend per share
50.8p
(2021: 48.9p)

Adjusted operating profit
£1,245m
(2021: £1,230m)
APM

IFRS loss after tax
£(1,762)m
(2021: £(709)m)

Fitch financial leverage ratio
30%
(2021: 28%)
REM APM

Assets under administration
£259bn
(2021: £310bn)
APM

The Strategic report was approved by the Board of Directors on 10 March 2023 and signed on its behalf by

Andy Briggs
Group Chief Executive Officer

In this report

Strategic report

Corporate governance

Financials

Additional information

Strategic report

At a glance

Who we are

Phoenix Group is the UK's largest long-term savings and retirement business. We offer a broad range of pensions and savings products to support people across all stages of the savings life cycle.

Our vision

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

Our purpose drives everything we do:

Helping people secure a life of possibilities

Our business

£259bn
total assets under administration

c.12m
customers

c.6,800
colleagues as at 1 March 2023

FTSE 100
and FTSE All World

c.£6.4bn
market capitalisation as at 1 March 2023

£12.1bn
of Group in-force long-term free cash to emerge over time

Our family of brands

Standard Life – Part of Phoenix Group

SunLife – Part of Phoenix Group

Phoenix Life – Part of Phoenix Group

ReAssure – Part of Phoenix Group

Our values

Growth
We grow our business through finding new ways to develop our expertise and innovate.

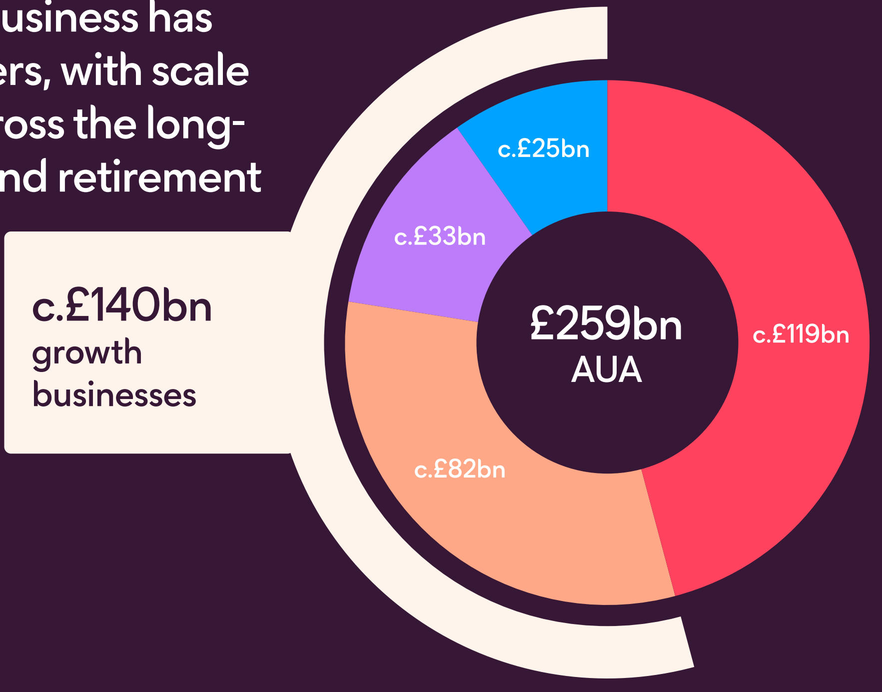
Passion
We are passionate about understanding and acting on what's important to our customers, colleagues and society.

Responsibility
We build trust by taking accountability and empowering others to do the right thing.

Courage
We're ambitious in the challenges we solve and we always speak up.

Difference
We collaborate across boundaries and embrace difference to deliver the best customer and colleague outcomes.

Our in-force business has c.12m customers, with scale businesses across the long-term savings and retirement markets



Heritage

We are the market leader in the safe and efficient management of legacy pensions and savings policies to deliver better customer outcomes, and in realising significant cost and capital synergies through Heritage backbook M&A.

c.5.5m
customers

Pensions and savings

We help customers journey "to and through" retirement. Our Workplace business supports people who save through their workplace pension, and our Retail business supports individual customers to save for, transition to, and earn income in retirement.

c.3m
customers

Retirement solutions

We participate across the key retirement markets, as we seek to help customers secure income certainty in retirement, including Defined Benefit pensions (including Bulk Purchase Annuities), individual annuities, and home equity release.

c.1.5m
customers

Europe and SunLife

Standard Life International, which operates in Ireland and Germany, offers a range of pensions and savings products, including international bonds. SunLife offers protection solutions and funeral plans direct to the over 50s market in the UK.

c.2m
customers

We offer a range of customer solutions across our businesses

Long-term savings

- Legacy pensions and savings products
- Defined contribution workplace pensions
- Retail savings for retirement
- Pension consolidation

Retirement

- Income drawdown and individual annuities
- Home equity release
- Defined Benefit pensions
- Protection solutions and funeral plans

Our investment case

How we generate shareholder value

We have a clear and differentiated strategy: we are growing our in-force business both organically and through M&A…

Organic growth

Fee-based businesses
- Workplace
- Retail
- Other

Retirement solutions
- DB Solutions
- Retirement Income

M&A growth

Backbook M&A
- Cost and capital synergies

Capability M&A
- Accelerates capability build

Reinvest surplus cash

Further in-force

Further in-force

Reinvest surplus cash

In-force business

Our in-force business provides three competitive advantages

- Capital efficiency
- Customer access
- Cost efficiency

…to deliver on our financial framework…

Cash
In-force business covers our dividend over the very long term

Resilience
Highly resilient capital position

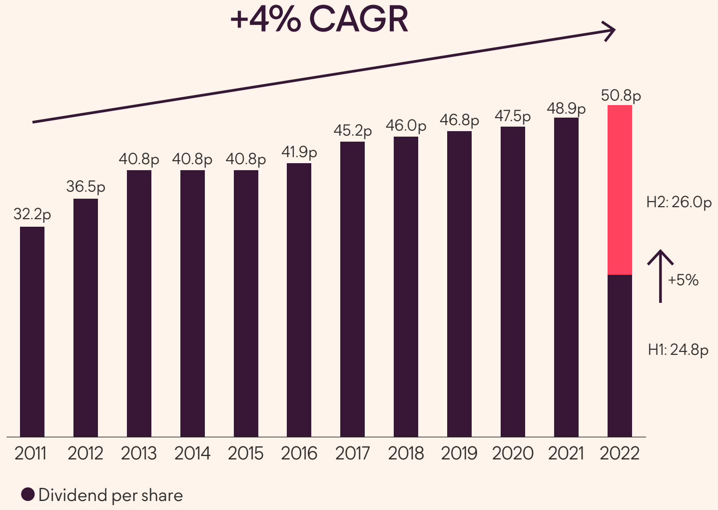
Growth
Growing organically and through M&A

…which underpins our sustainable dividend approach

Phoenix Group's dividend policy

The Board intends to pay a dividend that is sustainable and grows over time

Our strong dividend track record



Chair's statement

A truly purpose-led business

"Phoenix is fully embracing its purpose as we help more people on their journey to and through retirement, while delivering better outcomes for all of our stakeholders."

Alastair Barbour, Chair

Scan the code to watch the video from our Chair →

I am delighted to report that 2022 has been another year in which Phoenix Group has delivered both clear strategic progress and strong financial performance.

During the year, Phoenix Group has once again continued to produce the high levels of predictable cash generation it has always been known for and maintained its resilient balance sheet despite the economic turbulence. The Group has also delivered strong organic growth through our Standard Life branded businesses and M&A growth with the announcement of our first ever cash-funded acquisition of SLF of Canada UK Limited ('Sun Life of Canada UK'). All of which has enabled the Board to recommend a dividend increase of 5% for 2022.

At the Group's Capital Markets Event in December 2022 the executive team detailed their clear strategy to meet more of the needs of our existing customers and to attract new customers, enabling us to continue delivering cash, resilience and growth going forward. The Group also set its first ever organic growth target, which reflects both the Board and executive team's confidence in Phoenix Group's future growth prospects, despite the challenging economic outlook for 2023.

I am proud to see that the journey Phoenix Group has been on during the ten years I have served on its Board is delivering such clear value to our customers, colleagues, shareholders and wider society, as we fully embrace our purpose of 'helping people secure a life of possibilities'.

Our purpose drives all that we do

As the UK's largest long-term savings and retirement business, managing £259 billion of assets on behalf of our c.12 million customers, we have the responsibility and opportunity to make a real difference to our customers and to help drive a low carbon, fair and more secure future. That is why we are fully embedding ESG considerations across our business. Our strategic priorities are therefore informed by, and in support of, the key ESG themes where we can make the most difference, to both the planet, and to people.

If we are really going to help people secure a life of possibilities, we need to play our part in tackling the climate crisis affecting our planet. This means managing the financial risks that climate change poses to our customers, as well as maximising the opportunities it creates. We will do this by transitioning our business to net zero. And by being a leading voice, in calling for action, and driving system change.

We have therefore set clear targets for our journey to net zero across our investment portfolio, supply chain and operations, and with an estimated 24 million tonnes of CO_2 emissions from our investment portfolio, we really can make a difference.

We are taking an active approach to protecting our customers, by decarbonising our portfolios at scale, and through stewardship engagement. We also want to take advantage of the substantial investment opportunities, that moving to a green economy presents, such as renewable energy and sustainable transport. A great example of which is the £330m of policyholders assets we have invested into an innovative multi-asset 'climate solutions' mandate.

I am also delighted with the progress we are making to decarbonise our supply chain and operations, with 82% of our suppliers committed to science-based or Race to Zero based targets, and an 80% reduction in the emissions intensity of our own operations since 2019.

Our second key theme is focused on people, through promoting financial wellness and the role of good work and skills. We are facing a growing pension savings gap, with research from our think tank, Phoenix Insights, revealing that only 14% of defined contribution pension savers are on track for a retirement income that maintains their current standard of living. Engaging people in their financial futures, and advocating for broader societal action to tackle under-saving, is a critical part of our commitment to our purpose. Phoenix is supporting better financial futures by meeting more of our customers' evolving needs on their journey to and through retirement, through our range of innovative products and services.

However, for people to have better, longer lives they also need access to good work and opportunities to upskill throughout their careers, increasing their incomes and ability to save for retirement. Phoenix Insights advocates for change in working practices, careers advice and lifelong learning, as explained in more detail on pages 24–25. And as an employer, Phoenix is committed to being an exemplar inclusive, age-friendly workplace.

Supporting our colleagues

We also have a broader role to play in society and against the backdrop of economic uncertainty, a key issue over the past year has been the Cost of Living Crisis. The Board has therefore been focused on ensuring our colleagues are supported throughout. Central to this has been a wide-ranging support package to help colleagues navigate the cost of living challenges, which included giving all colleagues, except our most senior staff, a net £1,000 payment in August 2022.

Shareholder dividend increase

The Group has a clear dividend policy which is to pay a dividend that is sustainable and grows over time, with the Board prioritising the Group's long-term dividend sustainability at all times.

I am delighted to announce that the Board is recommending a 5% increase in the Group's 2022 Final dividend to 26.0 pence per share, meaning the Group's Total dividend for 2022 will be 50.8 pence per share. This reflects the Group's strong performance across a range of strategic and financial performance measures. It comprises a 2.5% organic dividend increase, and a 2.5% inorganic increase, reflecting the value from the acquisition of Sun Life of Canada UK.

Going forward, we expect the business to continue growing organically and we also remain committed to M&A. This in turn is expected to support a dividend that is sustainable and grows over time.

Board changes

I am delighted to be fulfilling the role of Chair while Nicholas Lyons is on a 14-month sabbatical, which is enabling him to undertake the role of Lord Mayor of the City of London. Nicholas has resigned from the Board on a temporary basis for his sabbatical, but remains in contact with myself and our CEO, Andy Briggs, so that he can seamlessly resume his role as Chair from November 2023. In line with good corporate governance as it relates to the independence of Non-Executive Directors, having served ten years on the Phoenix Group Board, I will sadly be leaving the Board when Nicholas returns in November.

Elsewhere, during 2022 the Board was delighted to welcome Katie Murray as an independent Non-Executive Director and Chair of the Board Audit Committee, and Maggie Semple as an independent Non-Executive Director and the Group's Designated Non-Executive Director for Workforce Engagement. Katie and Maggie have brought a diversity of experience and new perspectives, and both are already making valuable contributions. We also wished Wendy Mayall a fond farewell, as she retired from the Board in 2022, after diligently serving two three year terms and supporting us in navigating a number of key strategic initiatives during her time.

Outlook

As we enter a challenging economic environment in 2023, the Board and I are confident that Phoenix's business model and risk management approach will ensure that we remain highly resilient to any economic volatility. While our strategy will support us in delivering future growth, as we meet more of the needs of our existing customers and acquire new customers.

Thank you

Finally, I would like to take the opportunity to thank the Board, our colleagues, our partners and all of our wider stakeholders for their hard work and dedication in delivering what has been another successful year for Phoenix Group.

Alastair Barbour
Phoenix Group Chair

The success of our "Let's Get Ready" campaign

We're living longer than our parents and grandparents' generations, which presents huge opportunities for us all. To make the most of these opportunities, we need to think differently about how we work, learn, save and care for our families, and retire.

We need to reshape the systems that support and enable people to live better, longer lives. As the UK's largest long-term savings and retirement business, we believe we have a critical role to play in helping to achieve this and are committed to advocating on behalf of our customers to deliver it.

That is why we launched a multi-media campaign during 2022 on stereotypes and perceptions of retirement to kickstart a national conversation on retirement and the impact of people living longer lives, with positive feedback across a variety of stakeholders.

Scan the code to watch the video →

Phoenix is delivering sustainable growth

"2022 has seen us execute against all of our strategic priorities as we delivered both organic and M&A growth, which demonstrates that Phoenix is truly a growing business."

Andy Briggs, Group Chief Executive Officer

Scan the code to watch the video from our Group CEO →

2022 has been a strong year of delivery for Phoenix Group, despite the challenging economic environment. As we have made significant progress against our strategic priorities during the year by continuing to embrace our purpose. This has supported us in delivering a strong set of financial results, in line with our financial framework of Cash, Resilience and Growth.

Delivering Cash, Resilience and Growth supports an increased dividend

During 2022, our in-force business delivered cash generation of £1.5 billion, exceeding our 2021 target range of £1.3-to-£1.4 billion. Our resilient Solvency II ('SII') capital position was maintained with a SII Surplus of £4.4 billion (2021: £5.3 billion) and an increased Shareholder Capital Coverage Ratio ('SCCR') of 189% (2021: 180%), which is currently above our target range of 140–180%, providing capacity for us to invest into growth.

I am delighted we have delivered a second consecutive year of organic growth with record incremental new business long-term cash generation of £1,233 million (2021: £1,184 million). This means that we have once again more than offset the run-off of our in-force business and firmly established Phoenix as a business that is growing and sustainable. We are now confident of growing our incremental new business long-term cash generation going forward and have set a target of c.£1.5 billion per annum by 2025, which is the first organic growth target we have ever set, which is a clear signal of our ambition.

We have also delivered M&A growth in 2022, with the announcement of our cash funded acquisition of Sun Life of Canada UK. This is expected to complete in April 2023, with the key regulatory approvals now received. The significant value that will be generated by this transaction has enabled the Board to recommend a 2.5% inorganic dividend increase this year, which demonstrates the significant value to shareholders of smaller, cash funded M&A.

As a result of our strong overall performance, I am pleased that the Board is recommending a dividend increase of 5%, in line with our dividend policy. This reflects the Board's determination to reward our shareholders when our business performs well.

The sustainability of this increased level of dividend is underpinned by the £0.3 billion increase in our Group in-force long-term free cash to £12.1 billion (2021: £11.8 billion). This is the cash that will emerge from our in-force business and will be available to our shareholders over time. It ensures our increased level of dividend remains just as sustainable over the very long term.

In terms of our IFRS reporting, we have reported an increased adjusted operating profit of £1,245m for the year (2021: £1,230m), but the impact of our hedging approach results in an IFRS loss after tax of £(1,762)m (2021: £(709)m). As a reminder, we hedge our Solvency balance sheet with the aim of delivering resilient cash generation over the long term, but this does create IFRS accounting volatility. This impact has been accentuated by the significant increase in yields last year, driving the large accounting loss, but this does not impact our cash generation or dividend capacity in any way.

Executing on our clear strategy

Phoenix's role in society is to help our customers journey to and through retirement by meeting their evolving needs.

Phoenix has a clear and differentiated strategy as outlined on pages 14–15, which is in support of our purpose of helping people secure a life of possibilities.

Our strategy is simple. We are the experts in optimising a scale in-force business for cash and resilience, and we grow this both organically and through M&A.

Our in-force business is the £259 billion of assets we look after for our c.12 million existing customers. It is highly cash generative, and provides surplus cash, that we can reinvest into growth.

Organic growth comes from meeting more of our existing customers' needs as they save for, transition to, and secure an income in retirement. We also acquire new customers, who we can then help through their life cycles.

In addition, we have attractive M&A growth opportunities, where we acquire new customers at scale and deliver better

Significant growth opportunities are available by meeting more of the evolving needs of our existing customers and acquiring new customers:

Supporting corporates to de-risk through BPAs

Corporates are de-risking their defined benefit pension scheme liabilities through Bulk Purchase Annuity ('BPA') transactions in order to focus on their core businesses. This is fuelling increased demand for BPAs.

c.£1.4 trillion stock

Phoenix response

We are now an established player in the BPA market reflecting the investment we have made to build a comprehensive market proposition. This is enabled by the strong asset management and other supporting capabilities we have built.

£30–60 billion

Market flows per annum

Enabling customers to save for retirement in Workplace schemes

The Workplace pension scheme market is growing rapidly, driven by auto-enrolment, an ageing population and the move from defined benefit pension schemes to defined contribution pension schemes.

c.£0.5 trillion stock

Phoenix response

We have re-established ourselves as a significant player in the Workplace market. We are investing in this business and will leverage the Standard Life brand and our improved capabilities to retain and grow our customer assets over time.

£40–50 billion

Market flows per annum

Enabling individuals to save for, transition to, and secure income, in retirement

People are seeking guidance on their journey to and through retirement, as responsibility for retirement planning has now shifted towards individuals.

c.£1.0 trillion stock

Phoenix response

By engaging our c.12 million customers to better understand their needs and delivering the solutions they require, we have the opportunity to encourage customers to save with us, consolidate their pensions with us, and to decumulate through retirement with us.

£80–100 billion

Market flows per annum

Supporting customers with legacy pensions and savings products

Pressure on insurance companies to focus their strategies, free-up capital trapped in Heritage books, and to deal with cost inefficient legacy products and platforms, makes further consolidation in the UK market likely.

c.£470 billion market

Phoenix response

As the market leader in Heritage M&A we have the capability and scale to integrate businesses onto our modern platform to deliver better outcomes for customers with legacy products. We also unlock significant cost and capital synergies to create shareholder value.

Further M&A

Market activity to continue over time

outcomes for customers with legacy products. In the process, we transform the acquired businesses, to deliver significant cost and capital synergies.

But what's particularly attractive about our business model, is that the whole really is more than the sum of the parts. With our organic and M&A growth generating more in-force business, that we then optimise.

We are confident of delivering our strategy because our scale in-force gives us three unique competitive advantages.

The first is capital efficiency, where we get greater diversification from the breadth of in-force products across our £259 billion of customer assets. We are also highly resilient, through our core capabilities in risk management and capital optimisation.

Secondly, with c.12 million customers we have an unrivalled level of customer access, with around 1-in-5 UK adults being a Phoenix Group customer. This provides us with deep customer insights and clear growth opportunities as we look to meet more of their evolving needs over time.

And thirdly, we have a significant cost efficiency advantage. This is enabled through our customer administration and IT partnership with Tata Consultancy Services ('TCS'), and our focus on delivering a simplified operating model.

Our in-force business therefore gives us real competitive advantages, that are very hard to replicate. Which means we are confident that we can, and will, win in our chosen markets.

All of which provides us with the opportunity to drive both organic and M&A growth through meeting our customers' needs, as outlined in the spotlight box to the left.

Delivering our strategic priorities

Our strategy is delivered on a day-to-day basis through our three strategic priorities, which cover the investments and the programmes of work, that will further enhance our competitive advantages, and enable us to help people secure a life of possibilities. Our progress this year against each of these priorities is outlined below.

Optimise our in-force business

Our first strategic priority is all about leveraging our scale in-force business to deliver capital efficiency and better returns on our capital, with a strong 2022 performance across our key areas of focus.

Delivering cost and capital synergies, which we refer to as 'management actions', remains a core capability of Phoenix. In 2022, we have once again delivered a significant level of management actions, with £739 million of actions achieved. This was primarily from business-as-usual management actions, which are not reliant on cost and capital synergies from M&A transactions, and are therefore sustainable over the long term. This included the ongoing delivery of a range of balance sheet efficiencies, which remains a differentiating capability for us, as well as further illiquid asset origination and optimisation of our liquid credit portfolio.

Our comprehensive risk management framework includes our hedging approach, which differentiates us from other insurance companies. We hedge the vast majority of the market risks we are exposed to including equities, interest rates, inflation and currency, to minimise volatility in our capital position during volatile economic periods. We also operate a conservative credit portfolio to manage our exposure to credit risk. This approach enabled us to limit our SII surplus economic variance to £(0.4) billion during a volatile economic environment.

We have also continued to enhance our asset management capabilities, to support our growth ambitions and efficiently oversee the management of our customer assets, and continued to expand our range of asset management partners to 21, as we seek to diversify our portfolio globally.

Investing in a sustainable future is the first key pillar of our sustainability strategy and we have continued our investment into sustainable assets with c.£1 billion invested to support affordable housing, access to healthcare, and projects with a positive environmental or social impact.

Last year we also started to integrate decarbonisation strategies into our listed equity portfolios and we are now in the process of designing decarbonising equity benchmarks for UK and US listed equity exposures. This will help manage our customers' exposure to climate risk and reduce the carbon intensity of our investment portfolio.

I am also delighted that the work Phoenix and our peers have done to influence the SII reform proposals means the insurance industry should be better placed to help accelerate the path to net zero by investing to develop a low carbon economy.

Grow organically and through M&A

Our second strategic priority is focused on meeting more of our existing customer needs and acquiring new customers, with a significant year of achievements in 2022.

Our Retirement Solutions business had another strong year. Our focus on improving our capital efficiency in the Bulk Purchase Annuity ('BPA') business enabled us to generate a broadly similar amount of incremental new business long-term cash generation with less capital invested. This in turn enabled us to deliver an improved mid-teens IRR. It was also great to see the success of our launch of the Standard Life Home Finance products and the ongoing development of our open market annuity product, supporting a launch in 2023.

I am also delighted that the significant progress we have made in developing our Workplace proposition and the investment we have made into the Standard Life brand is delivering improved performance. We achieved net flows of £2.4 billion, as we retained our existing schemes and saw new members join our existing schemes. This supported us in delivering a c.50% annual increase in new business long-term cash generation. We also won 76 new schemes across all parts of the market including small, medium and large schemes.

Elsewhere, our other fee-based businesses (Retail, Europe and SunLife) remained resilient during the year.

We are also growing through M&A, having announced our first ever cash-funded acquisition, of Sun Life of Canada UK for consideration of £248 million. This transaction, which is due to complete in April 2023, is expected to deliver c.£0.5 billion of incremental long-term cash generation. This transaction also benefits from a simplified operational integration programme, as the majority of their policy administration is already being outsourced to our strategic partner (TCS Diligenta).

Engaging people in better financial futures is the second key pillar of our sustainability strategy and we have continued to make great progress here. In 2022, we transitioned c.1.5 million customers and c.£15 billion of assets from our existing default funds to our flagship Sustainable Multi-Asset default fund, as we seek to support our customers in investing their pension assets sustainably.

We also continued to use our influence on behalf of our customers and colleagues. As the UK Government's Business Champion for Ageing Society, I am passionate about encouraging older workers to stay in work or come back to work. Good examples of Phoenix leading in this area were our high-profile initiative to make our job adverts age neutral and the Phoenix Insights 'The Great Retirement' report which identified some of the key factors driving rising levels of economic inactivity among the over 50s in the UK.

Capital Markets Event: delivering sustainable organic growth

At the event, Phoenix announced its first ever organic growth target of c.£1.5 billion p.a. of incremental new business long-term cash generation by 2025, comprising c.£1.0 billion from Retirement Solutions and c.£0.5 billion from Pensions & Savings.

In Retirement Solutions, our strategy is to deliver a market-leading customer proposition and to optimise our capital to drive strong returns for our shareholders. We will remain disciplined in allocating c.£300 million p.a. of capital into BPA, which will support us in meeting the growing demand for BPAs from corporates.

In Pensions and Savings, our strategy is to deliver market-leading, comprehensive and convenient propositions across our Workplace and Retail businesses, which leverage the Standard Life brand. This will support us in delivering annual net fund flows of c.£5 billion in Workplace and c.£2 billion in Retail, by 2025.

Scan the code to watch the Capital Markets Event presentation replay →

Leveraging the Standard Life brand

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

The Standard Life brand has a deep history and heritage, and is well known and trusted by both advisers and customers. It has been a key factor in supporting our strong organic growth over the past few years and will support us in our future growth ambitions. We are committed to investing into the brand to support us in delivering on our future ambitions and growth targets.

Standard Life
Part of Phoenix Group

Enhance our operating model and culture

Our third strategic priority is focused on delivering leading cost efficiency and a modern organisation.

We continued to make great progress with our integration work, with the migration of c.400,000 Standard Life annuities to the TCS BaNCS platform and we transferred the custody and fund accounting services for £90 billion of assets to HSBC.

We have also recently announced the extension of our partnership with TCS, as we plan to move all c.3 million ReAssure policies from our Alpha platform to the TCS BaNCS platform by 2026. This will enable our customers to benefit from the clear digital focus, consistent customer journeys and proposition provided by the BaNCS platform. It is also fully aligned with our model of enhancing long-term cost efficiency, with a further c.£180 million of ReAssure net cost synergies expected.

As ever, we remain focused on attracting, developing and retaining the best talent to drive our business forward. With a range of initiatives in the year that has supported an increase in our colleague engagement eNPS score to +30 (2021: +23). It is also pleasing to see that we have balanced female representation on our Group Board and Executive Committee, in line with our diversity and inclusion goals.

Leading as a responsible business is the third key pillar of our sustainability strategy. Here we are committed to adopting the highest sustainability standards across our business and will lead by example for the stakeholders we engage with to drive real world change and deliver positive impact. We are committed to being net zero in our own operations by 2025, which we remain on track to achieve, with an 80% reduction in emissions intensity across our own operations since 2019.

We are also leading the industry with our approach to our supply chain, where we have set our pathway to decarbonisation and launched stretching new ESG supply chain standards for our partners.

Outlook

Looking forward, it is clear that 2023 will present a challenging economic backdrop. However, our business model is designed to be resilient throughout the economic cycle. Our comprehensive hedging approach is designed to protect our Solvency capital position from the majority of the market risks we are exposed, while the key areas of structural market growth we are focused on remain attractive.

In particular, we expect to see a strong year of volumes in the BPA market during 2023, with the recent yields increase having improved the funding positions of many schemes, driving increased demand. Workplace is also a very resilient business during an economic downturn, with pension contributions being deducted direct from salaries by employers, leading to stable flows through economic cycles.

Finally, there remains c.£470 billion of UK Heritage assets that we believe could come to market over time and we expect further opportunities for M&A consolidation due to the impact of cost inflation on backbook portfolios.

All of which means we expect to see continued organic and M&A growth, to support us in delivering Cash, Resilience and Growth, enabling us to pay a dividend that is sustainable and grows over time.

We are confident in our future growth as demonstrated by setting our first ever organic growth target of c.£1.5 billion of incremental new business long-term cash generation by 2025.

Thank you

The progress we have made this year is all down to our exceptional people and I would like to thank my colleagues throughout the Group for their continued contribution and dedication in 2022.

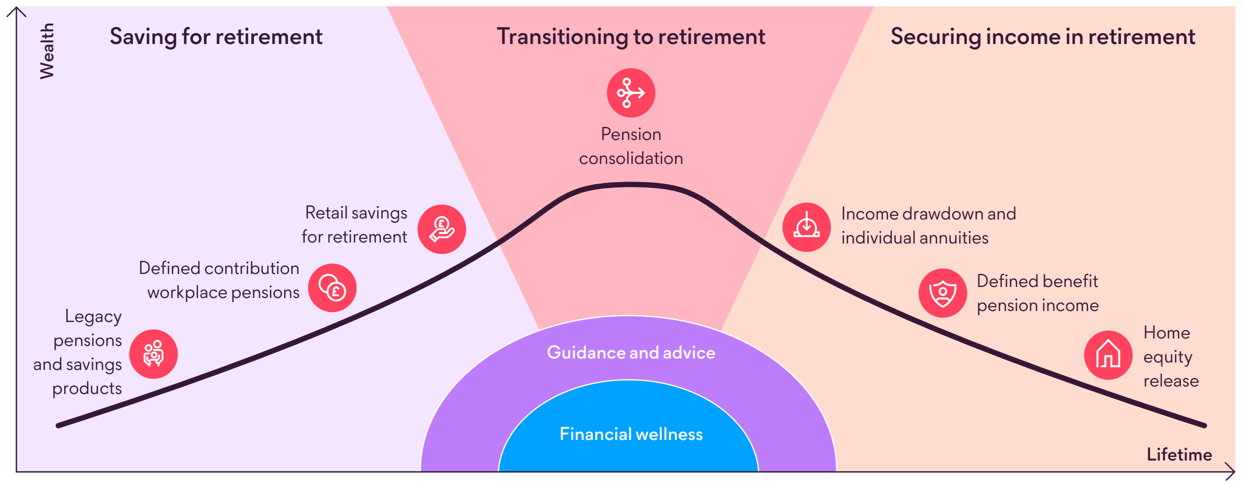
Andy Briggs
Group Chief Executive Officer

Our business model

Building a growing, sustainable business

Find out about our strategic priorities on pages 18–27 →

Our strategy drives growth by meeting more of the evolving needs of our existing customers and through acquiring new customers



Organic growth

Meet more of our existing customers' needs and acquire new customers by helping them to:

- Save for retirement
- Transition to retirement
- Secure income in retirement

M&A growth

We will undertake M&A to:

- Acquire new customers and transform businesses to deliver cost and capital synergies
- Accelerate our capability build

Reinvest surplus cash

Further in-force

Further in-force

Reinvest surplus cash

In-force business

Supporting our existing in-force customers' journey to and through retirement

c.12m	£259bn	£12.1bn
existing in-force customers	customer assets under administration	of Group in-force long-term free cash to emerge over time

Our scale in-force business provides us with three competitive advantages which enable us to deliver our strategic priorities

1

Capital efficiency

- Diversification of risk
- Highly resilient
- Single internal capital model

As a genuinely diversified long-term savings and retirement business, we get greater diversification from our breadth of in-force products. Our capital position is also highly resilient, through our core capabilities in risk management, and capital optimisation, underpinned by a single internal model.

2

Customer access

- c.12 million existing customers
- Deep customer insight
- Excellent customer service

With c.12 million customers, we have an unrivalled level of customer access, with around 1-in-5 UK adults being a Phoenix Group customer. This give us deep customer insights that underpin our developing propositions, enabling us to better meet their evolving needs on their journey to and through retirement.

3

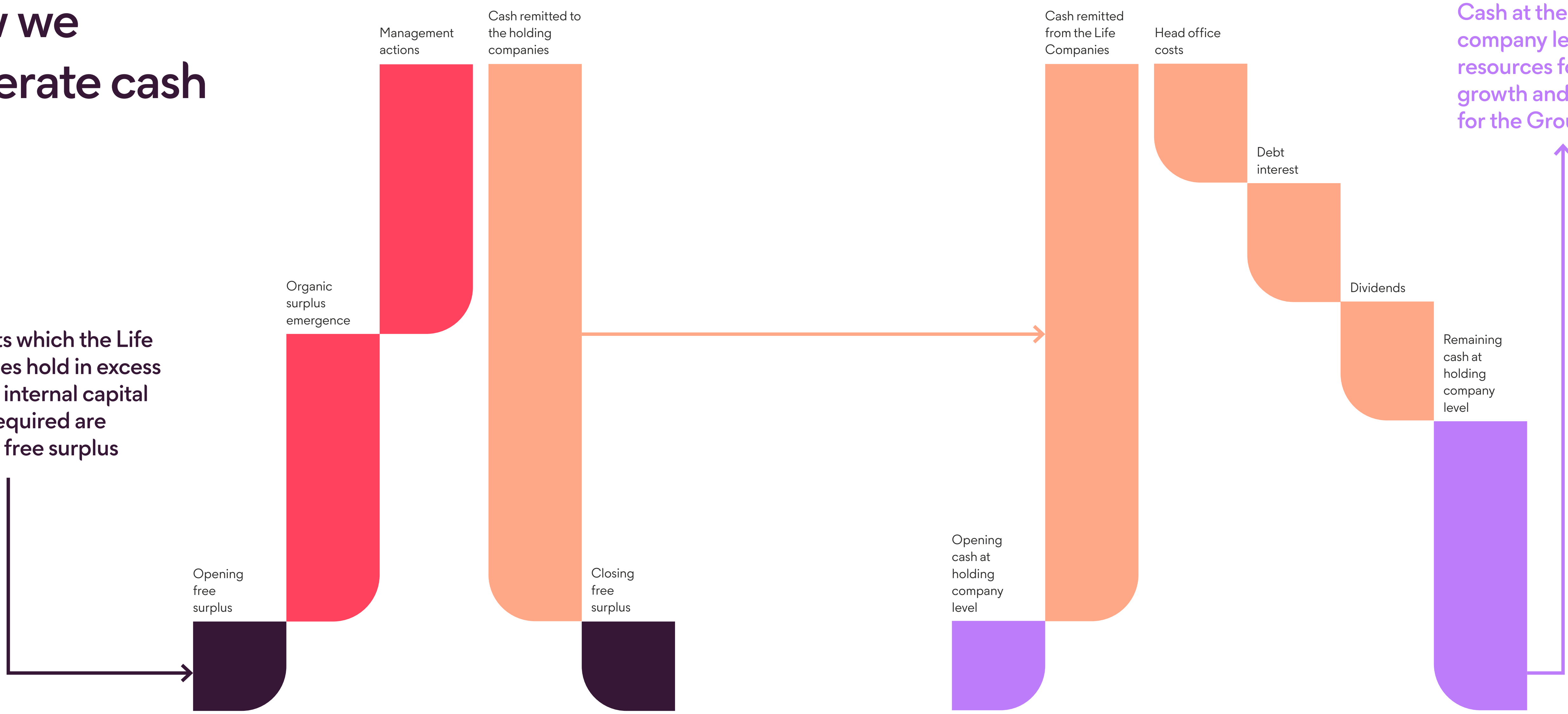
Cost efficiency

- Market leading administration & IT
- Simple operating model
- Market-leading operating costs

We have a significant cost efficiency advantage, which is enabled through our customer administration and IT partnership with TCS, and our focus on delivering a simplified operating model. This cost efficiency is demonstrated in the significant cost per policy savings we are delivering across our recent acquisitions.

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

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 Management 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 as they are released.

Management actions
These can either increase Own Funds or reduce Solvency Capital Requirements.

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.

Debt interest
On outstanding Group shareholder debt.

Dividends
The Group operates a dividend policy which is to pay a dividend that is sustainable and grows over time.

Uses of remaining cash – growth opportunities

What is the remaining cash used for?

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

BPA transactions
We have a disciplined approach to investing capital into BPA transactions that generate increased long-term cash flows and we target a mid-teens Internal Rate of Return ('IRR').

Investment into our growth capabilities
Investment into our propositions and capabilities that will support us in growing our business over time.

Our strategic priorities and KPIs

Optimise our in-force business

Leveraging our scale in-force business to deliver capital efficiency and better returns

Phoenix is the market leader in managing in-force business for cash and ensuring a resilient capital position, which in turn underpins our sustainable dividend over the long term. The Group's cash generation stems from the run-off of our in-force business, which we further enhance by delivering management actions and through realising integration synergies from completing value-accretive M&A.

In parallel, we deploy our comprehensive approach to risk management across our in-force business and we hedge the majority of our market risks. This brings resilience to our Solvency II capital position, and in turn helps us deliver dependable cash generation. We are also focused on optimising our capital to ensure we deliver enhanced returns for our shareholders.

Sustainability is embedded throughout our business and across our strategic priorities. As a result, investing in a sustainable future is a key part of optimising our in-force business, as we are seek to invest our £259bn of customer assets responsibly.

Strong cash generation in 2022

Phoenix delivered strong cash generation in 2022 of £1,504m (2021: £1,717m), which exceeded the Group's 2022 target range of £1.3bn to £1.4bn. This reflects our continued focus on optimising our in-force business to deliver dependable cash.

Group in-force long-term free cash underpins our dividend sustainability

The Group increased its in-force long-term free cash by c.£0.3bn during 2022, driven by our increased new business long-term cash generation and management actions, which more than offset our annual uses of cash. With £12.1bn of Group in-force long-term free cash available to our shareholders over time, our increased dividend is every bit as sustainable over the very long term.

Maintaining our comprehensive risk management approach

The Group maintained a resilient Solvency II surplus of £4.4bn during the year (2021: £5.3bn). The reduction in the year primarily reflects the pro-active management of our leverage with a £450m debt repayment and our continued investment into growth. There was also a small impact from the significant rise in interest rates during the second half of the year. However, our hedging approach mitigated the majority of the impact, with only a c.£0.4bn adverse economic variance that was in line with our expectations, despite a >1-in-1,000 economic shock being experienced.

Our increased Solvency II Shareholder Capital Coverage Ratio ('SCCR') of 189% (2021: 180%) is above our target range of 140% to 180%, providing capacity to invest into growth both organically and through M&A.

Delivering ongoing management actions

We enhance cash generation from our in-force business by delivering value-accretive management actions, and in 2022 we delivered total management actions of £739m. This included £570m of actions from BAU activities including the ongoing delivery of balance sheet efficiencies, further illiquid asset origination and the optimisation of our liquid credit portfolio. This demonstrates the sustainability of BAU management actions over the long term, in the absence of further M&A.

We also realised a further £169m of M&A synergies from the ReAssure acquisition, as we delivered the integration programme across the ReAssure Group Functions and Finance & Actuarial teams, to deliver further synergies in line with our plan.

Enhancing our differentiated asset management model

We continued to invest into developing a leading in-house asset management function, which sets the Group's strategic asset allocation approach and centrally oversees the performance of our third party asset managers.

During 2022, our team helped to originate c.£3.5 billion of illiquid assets, an increase of 17% compared to 2021 (c.£3.0 billion). We also maintained a strong illiquidity premium (the spread over corporate bonds) of c.70bps on private debt, despite the increase in interest rates. This was enabled by the strong asset management capability we are building.

Investing in a sustainable future

We are committed to integrating decarbonisation strategies into both our listed equity and listed credit portfolios. We see this as essential to managing the risk that climate change poses to our customers and a key step in meeting our interim 2025 and 2030 decarbonisation targets on our journey to net-zero.

We have also continued our investment into sustainable assets within our shareholder credit portfolio during the year, with c.£1.0bn invested. This included £483m into projects with a positive environmental impact, £228m into affordable housing, £75m into healthcare/education, and £207m into social impact investments and sustainability-linked loans.

We are also investing to scale the required decarbonisation technology and support low carbon businesses, such as our recent £338 million investment into a new multi asset 'climate solutions' mandate.

And we have also implemented a new stewardship programme to encourage net zero aligned strategies across the companies we invest in, with a priority focus on 25 high emitting companies that account for c.32% of our total financed emissions.

Optimise our in-force business – how we measure our delivery

Cash generation

£1,504m

2022 target: £1.3bn to £1.4bn

2020	£1,713m
2021	£1,717m
2022	£1,504m

Definition
Cash generation represents cash remitted by the Group's operating companies to the Group holding company in the current period. Cash remitted principally reflects the generation of Free Surplus within the life companies and the benefit of value-accretive management remitted in the period.

Why it matters?
Cash at the Group holding company is used to pay dividends, interest and various corporate costs, with surplus cash reinvested into a range of organic and M&A growth opportunities.

Future target
- 2023 cash generation of £1.3bn to £1.4bn.
- Three-year 2023–2025 cash generation of £4.1bn.

Links
REM APM

Solvency II surplus

£4.4bn

2022 target: No target

2020	£5.3bn
2021	£5.3bn
2022	£4.4bn

Definition
The Solvency II surplus is calculated as the excess of eligible Solvency II Own Funds over the Group's Solvency Capital Requirements.

Why it matters?
The Solvency II surplus is the regulatory assessment of capital adequacy of the Group. We pay our dividends from our surplus and so retaining a significant surplus ensures the sustainability of our dividend over the long term.

Future target
Maintain a Solvency II surplus that enables us to operate within or above our SCCR target range.

Links
REM

Solvency II Shareholder Capital Coverage Ratio ('SCCR')

189%

2022 target: 140% to 180%

2020	164%
2021	180%
2022	189%

Definition
The Solvency II SCCR is defined as the ratio of the Group Own Funds to Group Solvency Capital Requirements, after adjusting to exclude amounts relating to unsupported with-profit funds and unsupported Group Pension Schemes.

Why it matters?
The SCCR demonstrates the extent to which shareholders' Eligible Own Funds cover the Solvency Capital Requirements. It therefore measures the capital adequacy of the Group from a shareholder perspective.

Future target
Maintain a SCCR within or above our target range of 140% to 180%.

Links
REM APM

Group in-force long-term free cash

£12.1bn

2022 target: No target

2020	N/A
2021	£11.8bn
2022	£12.1bn

Definition
Group in-force long-term free cash is the cash available to shareholders over time. It is defined as the estimated lifetime cash generation from our in-force business, plus Group cash held in the HoldCo, less outstanding shareholder debt, committed M&A and transition costs, and interest on debt until maturity.

Why it matters?
Group in-force long-term free cash is a measure to demonstrate the sustainability of our dividend over the very long term.

Future target
Grow our Group in-force long-term free cash over time, to support a dividend that is sustainable and grows over time.

Links
REM APM

Priorities for 2023

- Continue to deliver value-accretive management actions.
- Diversify our asset portfolio into North America and directly source illiquid assets.
- Continue to deliver balance sheet resilience through our comprehensive risk management approach.
- Publish and implement the Phoenix Group Net Zero Transition Plan.

Planet: Addressing climate change and supporting nature and bio-diversity

James Wilde, Chief Sustainability Officer

Q Can you introduce your role and how Sustainability is embedded across the company?

My role is to set the direction of our sustainability strategy and ensure we are challenging ourselves to drive forward meaningful action that enables us to deliver on our purpose. It is incredibly exciting to be part of Phoenix, with our scale and ambition, meaning we can truly make an impact and drive up sustainability standards across the whole market.

I head up a central sustainability strategy team and the delivery of our ambitious programme is carried out across the business by experts in our functions embedding our approach business-wide – from our sustainable investments team to our sustainable procurement team.

Q What are the key sustainability themes that we have the ability to make the biggest impact on?

Sustainability is now embedded into the core fabric of our business, and in 2022 we reviewed our areas of focus to ensure we are directing our attention to the most material ESG issues that we impact on and that can impact us. The top environmental issues for us to take action on are climate change and nature loss. The most material social issues are financial wellness and longevity which together create the need to tackle the pensions savings gap and support people to have better financial futures. These material issues are all clearly aligned with, and enable us, to deliver on our purpose of helping people secure a life of possibilities.

Through having a focus on the risks and opportunities related to climate change and nature loss, we can also make a difference to our customers as we manage the risk that they are exposed to by climate change and nature, while creating a better, more sustainable future for them.

We have set ourselves a number of stretching targets to achieve these aims which are outlined in our 2022 Sustainability Report.

I'm really pleased that our approach has been recognised by independent organisations. We have been awarded the Terra Carta Seal for our commitment to sustainability and the Tortoise Responsibility 100 index have placed us at 12th in the FTSE100 for our approach.

Q Phoenix manages £259bn of customer assets – how are you considering the risks and opportunities of climate change and the transition to net zero?

Our core role is to invest and manage assets on behalf of our customers and shareholders. In doing so, we must balance the need for returns with the right level of risk. Both of those elements – risk and return – point towards decarbonising our investments in a way that manages our customers' exposure to climate-related risk; unlocking the financial opportunities the transition presents and ensures continued stable financial returns.

We have put addressing climate change at the heart of our investment strategy and are committed to transitioning our investment portfolio to net zero by 2050, as well as hitting ambitious targets to cut emissions in the next decade.

Our investment portfolio constitutes the vast majority of our carbon footprint – around 99% – so we are firmly focusing on our investments as a priority. We look at this in three ways: how we decarbonise our portfolios, active stewardship of our assets, and investing in climate solutions.

But we can't do this alone. We need to accelerate change to transform economies to combat the climate crisis and so work with peers and policymakers with the aim of removing barriers to net zero investment and defining best practice. We are an active member of a number of collaborations and groups including Climate Action 100+ and the Sustainable Markets Initiative, and have published research articles raising awareness of challenges faced by us and peers and proposing solutions to overcome these.

It is important we practice what we preach so we are also very focused on reducing emissions in our operations and working with our supply chain. We have set the goal of being net zero in our operations by 2025.

Transitioning our customers to a Sustainability Multi-Asset Default Fund

The vast majority of our customers keep their money in a default pension option. In 2022 we transitioned c.1.5m customers and c.£15bn of assets from our existing default funds to our default Sustainable Multi Asset Universal Strategic Lifestyle Profile.

We aim to give customers the income they need in retirement and focus on ESG factors that can positively or negatively affect returns. We have also set clear targets that aim to:

1. Reduce the carbon intensity (a measure of the carbon emissions of all companies invested in) by 50% compared to the parent index;
2. Increase green technology revenues by 50% compared to the parent index; and
3. Enhance ESG scores by 10%–20%.

Our strategy to change members to our sustainable default solution won 'ESG initiative of the year (for corporates)' at Environmental Finance's Sustainable Investment Awards 2022.

Standard Life
Part of Phoenix Group

Our work has been recognised, with a move from B to A- for the CDP Climate Change Questionnaire, putting us in the "leadership category on climate".

Q What progress has Phoenix made in 2022?

We are committed to integrating decarbonisation strategies into both our listed equity and listed credit portfolios. We see this as essential to managing the risk that climate change poses to our customers and a key step in meeting our interim 2025 and 2030 decarbonisation targets on our journey to net-zero.

We started this journey in 2022 with the move of £15bn AUA to our Sustainable Multi-Asset fund and the development of a climate transition strategy for liquid credit assets in our shareholder portfolio (c£13bn AUA). We expect to expand our scope by applying customised decarbonising equity benchmarks to all our equity funds in our control where this is in the best interest of our customers, beginning with UK and US-listed equities. It is critical that all such changes to listed equity benchmarks are well tested and managed so that we can continue to protect customers' financial outcomes.

During COP15 we also published a nature statement, confirming our commitment to act, and we have been piloting the Taskforce for Nature-related Financial Disclosures ('TNFD') in collaboration with stakeholders across the industry, with the aim of producing our first TNFD report.

Q What should we expect from Phoenix Group in 2023 in relation to its Sustainability strategy?

Industry wide, we need to move from a focus on setting targets, to defining clear plans of action and delivering impact at scale. We have already defined our net zero targets, and in 2023 we will be publishing our first Net Zero Transition Plan. This will set out our science-based decarbonisation trajectory consistent with our interim targets and how we will track this using a robust framework.

Using a central lens on customer interest, it will highlight how we will build on the actions we have taken to date, to deliver change at the scale and pace required by the net zero transition both through our own direct actions and by helping to inform the system-wide change required to unlock investment.

We will pull the key levers we have at our disposal to both drive real economy change and optimise financial outcomes for our customers – including stewardship – and we will work with peers and policymakers to drive stable policy that enables us to invest at scale in the sectors and companies of the future in the best financial interest of our customers. For example, we have committed to c.£10bn of sustainable asset investment between 2022 and 2026.

We are also expanding our work on nature, setting out our priority areas of focus to drive our nature investment opportunities and our activity in our offices and communities.

From an investment perspective, we are continuing to enhance our stewardship capabilities to hold companies to account, with defined expectations. In 2023 we are publishing our first Stewardship Report with the aim of being a signatory to the UK Stewardship Code.

I'm looking forward to 2023 and beyond, and all that we can achieve together.

2023 key targets

- 50–70% of illiquid asset origination in the shareholder portfolio to be sustainable and transition assets
- Implement decarbonisation for shareholder liquid credit portfolio c.£13bn to meet our carbon reduction targets
- 90% of key suppliers commit to SBTi or Race to Zero
- Develop our nature strategy long-term targets.

Grow organically and through M&A

Meeting more of our existing customers' needs and acquiring new customers

Phoenix has significant growth opportunities available, both through meeting more of the evolving needs of our existing customers, on their journey to and through retirement, and by acquiring new customers, both organically, and through M&A.

We are also engaging people in their financial futures, and advocating for broader societal action to tackle under-saving, which is a critical part of our commitment to our purpose.

Record new business growth in 2022
We delivered record new business long-term cash generation ('LTCG') of £1,233m in 2022 (2021: £1,184m). This strong performance means the Group has, once again, more than offset the run-off of our in-force business and demonstrates that Phoenix is a growing, sustainable business.

Developing innovative retirement income solutions
Retirement Solutions, which includes our BPA business, was the largest contributor to our 2022 new business LTCG with £934m written in 2022. This was broadly similar to 2021 (£950m), but was achieved with investing 20% less capital and reflects our progress in optimising our capital efficiency in BPA. This enabled us to deliver an improved mid-teens IRR for the year. We also continued to develop our proposition, with the launch of our Standard Life Home Finance offering, and development of an open market annuity product that will be launched in 2023.

Enhancing our Workplace proposition and developing our Retail channels
Our Pensions and Savings business comprises our Workplace and Retail businesses, both of which are capital-light fee-based businesses that we are looking to grow over time. In Workplace, the investment we have made into developing our proposition and the impact of the reinvigorated Standard Life brand has driven a strong year of performance.

Workplace has contributed £212m of new business LTCG in 2022, up 53% on 2021 (£139m), with positive net fund flows of £2.4bn in the year, which is an elevenfold increase on the £0.2bn seen in 2021. This reflects the strength of our customer proposition that is enabling us to retain our existing schemes. Which in turn enables us to benefit from the natural compounding growth of the Workplace business model, with new joiners to existing schemes and salary inflation increases on contributions. We are also now consistently winning new schemes in the market across small, medium and large-sized schemes, with 76 new schemes won in 2022 covering c.£2bn of assets (2021: £0.2bn).

In our Retail business, we have now firmly established our team with our key leadership hires made and we outlined our strategy to drive net flows across both the Retail Direct and Retail intermediated markets at the Capital Markets Event in December 2022. The Retail business remains in net fund outflow at present (£(1.4)bn), but contributed an increased new business LTCG of £37m in 2022 (2021: £29m). As we fully develop our Retail channels and deliver our strategy this is expected to grow over the coming years.

Finally, both our European business, Standard Life International, and SunLife, continued to deliver for their customers and contributed LTCG of £29m and £21m respectively (2021: £31m and £35m).

Executing M&A
We were delighted to announce our first ever cash funded acquisition, of Sun Life of Canada UK, for consideration of £248m during 2022. This transaction, which is expected to complete in April 2023, adds c.£10bn of assets under administration and c.480k policies to Phoenix. It is expected to deliver c.£0.5bn of incremental long-term cash generation, which includes c.£0.1bn of integration synergies, net of costs. The transaction also benefits from a simplified operational integration programme, with the majority of their policy administration already being outsourced to our strategic partner TCS Diligenta. In addition, as part of the transaction we have agreed a new strategic asset management partnership with the Sun Life Financial Inc. Group, which will support further diversification of our credit portfolio in North America.

Engaging people in better financial futures
We are focused on meeting more of our customers evolving needs on their journey to and through retirement to support them in achieving financial wellness.

We offered 1.2 million customers the chance to review our digital literacy material: Digital Essentials. Here we targeted customers of all ages to offer help to those who need digital assistance and aid the more digitally savvy who might want to use these materials to help someone they know. We also continued to advocate on behalf of our customers through the work of our think tank, Phoenix Insights, with more detail on pages 24–25.

Maintaining strong customer satisfaction
Our focus on delivering better customer outcomes is reflected in our continued strong customer satisfaction scores.

Our Combined Group customer satisfaction telephony score was 92% and our Standard Life digital journeys score was 94%, both of which exceeded their respective targets. This is due to the investment we are making to deliver a market-leading customer service offering and strong product propositions.

Grow organically and through M&A – how we measure delivery

New business long-term cash generation ('LTCG')

£1,233m

2022 target:
>£800m

2020	£766m
2021	£1,184m
2022	**£1,233m**

Definition
New business LTCG 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.

Why it matters?
Our strategy seeks to leverage the significant growth opportunities from meeting more of the evolving needs of our existing customers across their life cycle and through acquiring new customers. This will enable Phoenix to be a growing, sustainable business.

Future target
Grow our new business long-term cash generation from c.£1.2bn in 2022 to c.£1.5bn per annum by 2025.

Links
REM APM

Pensions and Savings net fund flows

£1.0bn

2022 target:
No target

2020	N/A
2021	£(1.4)bn
2022	**£1.0bn**

Definition
Net fund flows are the gross inflow less gross outflow of customers' assets across our capital-light fee-based businesses.

Why it matters?
This measure quantifies the annual level of growth in customer assets within our Pensions and Savings business, with increased net fund flows driving increased fee income from the businesses.

Future target
Grow our Pensions and Savings annual net fund flows with a target for c.£5bn in Workplace by 2025 and c.£2bn in Retail by 2025.

Links
REM APM

Combined Group customer satisfaction – telephony

92%

2022 target:
90%

2020	N/A
2021	92%
2022	**92%**

Definition
Customer satisfaction as reported through a survey following a telephony call, where customers can rate us between 1 and 5.

Why it matters?
This measure highlights how satisfied our customers are with Phoenix Group's telephony servicing propositions across our various brands.

Future target
To deliver a customer satisfaction score of 88% or above in 2023.

Links
REM APM

Customer satisfaction Standard Life – digital journeys

94%

2022 target:
92%

2020	94%
2021	95%
2022	**94%**

Definition
Customer satisfaction as reported through a survey following an online interaction, where customers can rate us between 1 and 5.

Why it matters?
This measure highlights how satisfied our customers are with Standard Life's digital service proposition.

Future target
To deliver a customer satisfaction score of 94% or above in 2023.

Links
REM APM

Priorities for 2023

- Grow Retirement Solutions with BPA capital investment of c.£300m in 2023 and launch an open market annuity.
- Deliver increased net fund flows in Pensions & Savings to drive our fee-based growth.
- Complete the Sun Life of Canada UK acquisition and assess further M&A opportunities.
- Launch an awareness campaign to reach 4m people on longer lives and under-saving

Our strategic priorities and KPIs continued

People: Promoting financial wellness and the role of good work and skills

Catherine Foot, Director of Phoenix Insights

Q Can you introduce yourself and explain what Phoenix Insights is?

I'm Catherine Foot, Director of Phoenix Insights, our in-house longevity think tank set up to help catalyse the changes necessary across society to enable more of us to live better, longer lives.

Q Why did Phoenix Group choose to set up Phoenix Insights?

Phoenix Insights is a cornerstone in our commitment to delivering on our purpose, of helping people secure a life of possibilities.

As a country, we need to close the pensions saving gap, with as many as 18 million UK adults not saving enough for the retirements they want.

Phoenix Group is uniquely placed to make a difference here, by innovating for customers and supporting people to save and make the most of their retirement income. But to help many millions more to be able to save enough for their future, we also need action in areas like employment, skills and social security.

Phoenix Insights has been set up to explore these broader solutions to the under-saving issue, and to advocate for change. We use impactful research to help drive forward ideas and greater public engagement with the need for action, not just from government, industry or civil society, but from everyone.

Q Why is Phoenix Insights interested in employment and skills?

In a major piece of research we published last year in partnership with Frontier Economics, we established that only 14% of defined contribution pension savers over 25 are currently on track for the retirement incomes they expect. We also found that millions of savers simply cannot afford to save at the sorts of rates that would bring them on track for a decent retirement. If we are to tackle the under-saving issue, it's therefore critical that we support people to get and remain in good quality work and provide more opportunities for people to upskill, switch careers, and grow their incomes over their working lives. You simply can't improve the adequacy of retirement incomes for people without focusing on jobs and skills.

However, we have a situation at the moment in this country where many people in their 50s and 60s fall out of work before they are ready to retire, and rates of participation in adult education and retraining programmes are much too low.

Part of our work this year is therefore looking at the actions that government, employers and others need to take to enable people to remain in decent work, return to work when they need and want to, and get access to opportunities to re-skill.

Q What have you learnt from your research in the first year since Phoenix Insights was set up?

One of the things we were keen to do in setting up Phoenix Insights was to ground our work in real understanding of how people feel about retirement and living longer, and what really matters to them. In partnership with the National Centre for Social Research and the Policy Institute at King's College London, we spent six months working with people from all walks of life across the UK to understand their experiences and attitudes, and work directly with them to identify the key actions needed in society to respond to longer lives. Part of what drives our work now is these priorities that people identified for themselves, which is better access to careers advice, financial advice, and retraining.

Q What are the potential solutions to help solve some of the issues you have identified?

I think that good information and guidance for people is absolutely critical. Whether its our finances and pensions, our careers and working life, or our wider well-being, navigating through and actively planning and preparing for longer lives is not easy. We need a step change in the accessibility of good information and guidance about key decisions during adult life.

We also need to get serious about skills and adult education in this country. A 40 or 50 year working life in a world of rapid technological, economic and ecological change requires us to re-skill and retrain throughout life.

And we need to make some changes to our social security safety net. With a state pension age rising in line with average life expectancy, we must do more to provide sufficient state support to those people who have faced multiple disadvantages throughout life and who simply cannot work up until their late sixties.

Q What can we expect to see from Phoenix Insights in 2023?

We've got a lot of exciting work underway. We're working with the Policy Institute at King's College London to take a closer look at the future of the State Pension, using deliberative work with the public to explore how this critical element of our intergenerational social contract can adapt to the situation we find ourselves in where healthy life expectancy varies by almost 20 years between the richest and poorest.

In partnership with the Learning and Work Institute we'll be setting out the economic case for investment in lifelong learning and skills, for individuals, for employers, and for government, and working with the International Longevity Centre, Business in the Community and others to explore how we can achieve a much-needed radical increase in adult participation in learning and retraining in this country.

Q What is Phoenix Group doing to help close the pensions saving gap?

I think Phoenix Group, as the UK's largest long-term savings and retirement business, has a critical role to play in tackling the pension savings gap, with four key levers we believe can help to drive real change.

Firstly, we need to raise awareness of the under-saving issue, which Phoenix Insights is doing through its ongoing research programme which is designed to contribute to the public debate.

Secondly, Phoenix Group is uniquely placed to help its customers journey to and through retirement. Here we can support millions of customers with their financial wellness throughout their working lives, engage them in planning for their future, and ensure they make the most of their retirement income. We will do this by developing innovative products and services, that support their evolving needs. Which we can distribute through our well known and trusted consumer brands such as Standard Life and SunLife.

Thirdly, we need to promote the role of good work and skills, as to help people save more, we need to support them to stay in good work for longer. As an employer, we can ensure that Phoenix Group is a fantastic place to work for people of all ages, and take active steps to attract, retain and retrain older workers.

For instance, we are working to trial new ways to support our colleagues to have career conversations and consider career switching, advocating for the importance of increasing access to good quality flexible and part-time work, and working with our Behavioural Insights Team on how holistic advice and support interventions at mid-life can help people take action on their finances, work and well-being.

And finally, we need to advocate for and support societal change for those who cannot afford to save, or save enough. We can do this through the work of Phoenix Insights, and through our work supporting financial inclusion.

Great Expectations: Are people's retirement income expectations adequate and achievable?

We explored the adequacy and achievability of people's retirement income expectations. And we found causes for concern, for different reasons, about most savers in defined contribution pension schemes.

To bring people on track for their retirement income targets, we explored whether working longer (to 68) or saving more (12% of salary pension contributions) could be sufficient, or whether other actions or policies may be needed.

We found that whilst this would bring many more in line with their expectations it mainly benefits middle and higher earners, and may not be realistic for many. Nearly four in ten people worry about working for longer because of the impact on their physical health.

We identified that industry and Government must do more to address this mismatch between expectation and likely reality, including engaging people much more effectively in their future finances; making working for longer more feasible, attractive and rewarding; and creating a safety net of support for those unable to work longer or save more.

2023 key targets

- Provide access for 1.5 million Standard Life customers to an integrated financial wellness hub, Money Mindset
- All customers supported by digital literacy hubs.
- Reach 1.5 million customers to raise awareness about the impact of their investments.
- 40% of senior leaders will be women and 13% ethnic minority representation in our workforce

Enhance our operating model and culture

Delivering leading cost efficiency and a modern organisation

Enhancing our operating model and culture are key to our success. We will do this firstly by completing our planned migrations, and through driving simplification to a "single best way of doing things". This will support us in maintaining and enhancing our cost efficiency. We are also committed to being a leading responsible business, which attracts and retains the best talent, through a diverse and inclusive, high-performance culture.

We are also committed to adopting the highest sustainability standards across our business and will lead by example for the stakeholders we engage with to drive real world change and deliver positive impact.

Completing our migrations

We have made good progress in delivering our Customer & IT integration in Standard Life. For instance, during 2022 we have successfully migrated c.400k annuity policies onto the TCS BaNCS platform. We also transferred c.1,200 colleagues to TCS Diligenta in February 2023 as we simplify our operational structure, improve the customer experience and realise cost synergies. TCS are also now developing new capabilities for us that will significantly enhance our Workplace proposition and help drive our future Workplace growth.

On the ReAssure integration, we have completed the Group Functions integration and are making strong progress with the integration of the Finance & Actuarial functions. This helped realise £331m of further cost and capital synergies in the year, with total synergies delivered to date of £1,262m (103% of our revised target).

We have also recently announced our decision to transfer all c.3 million ReAssure policies from our in-house Alpha platform to the outsourced TCS BaNCS platform by 2026. Consolidating all policies onto TCS BaNCS will allow the business to benefit from TCS's significant ongoing investment in the platform, with Phoenix customers benefiting from the clear digital focus, consistent customer journeys and customer proposition provided by one platform. This decision is also fully aligned with our model of enhancing long-term cost efficiency, with a further c.£180 million of ReAssure net cost synergies now expected. This increased our target M&A integration synergies from ReAssure to £1,230m.

Driving simplification in our business

A key aspect of enhancing our operating model is driving simplification across our business, by migrating to a 'single best way of doing things'.

For instance, during 2022 we have progressed towards a single unified employee experience for our colleagues with a single payroll system and a single, enhanced Phoenix Group intranet. We have also transferred the custody and fund accounting for c.£90bn of assets to HSBC, as we simplify and centralise our asset custody model.

Attracting, developing and retaining the best talent, and building our culture

A crucial component for delivering on our purpose and strategy is attracting and retaining the best talent. That is why we are committed to our ambition of making Phoenix the best place our colleagues have ever worked.

In 2022 we continued to deliver against our people strategy which is structured around driving organisational effectiveness, evolving our culture, and building talent.

We have continued to build our people capabilities and have evolved our talent acquisition model to better enable that. In 2022 we also launched our leadership capabilities framework, which articulates eight core capabilities we need our leaders to demonstrate.

We've made good progress against our targets for female and ethnic minorities, which are based on the deep insight gathered from our Group-wide 'Who We Are' survey, which provides us with a clear understanding of our colleague demographic and will support us in better targeting our diversity and inclusion initiatives.

The overall progress we are making is also reflected in our increased employee engagement eNPS score of +30 in 2022 (2021: +23), and which was significantly ahead of our target of +24 for the year.

Leading as a responsible business

Our objective is for our operations to be net zero carbon by 2025. This target covers Scope 1 and 2 emissions from our occupied premises and Scope 3 emissions from our business travel. We remain on track to achieve it with an 80% reduction in the emissions intensity of our own operations since 2019.

We also want to work with our supply chain to generate value for all of our partners and stakeholders. Central to this is the transition to a net zero supply chain by 2050 with an interim objective to halve supply chain emissions by 2030. We have therefore developed our ESG Supply Chain Standards to reflect our expectations for partners around net zero and ongoing commitments.

During 2022 we have engaged with our key suppliers to ensure they set out a climate change plan and targets for their business, with 82% of our suppliers now committed to either a Science Based Target Initiative ('SBTi') target, or a target based on the UN's Race to Zero initiative.

Enhance our operating model and culture – how we measure delivery

Total ReAssure integration synergies

£1,262m

Total target: £1,230m (103% delivered to date)

2020	£696m
2021	£930m
2022	£1,262m

Definition
The total cost and capital integration synergies realised from the acquisition of ReAssure which completed in 2020.

Why it matters?
We acquire companies which we then integrate onto our operating platform in order to realise significant cost and capital synergies, which in turn deliver incremental cash and capital to increase shareholder value.

Future target
We have a target to realise total cost and capital integration synergies of £1,230m from the ReAssure acquisition, which we have already exceeded with 103% delivered to date.

Links
REM APM

Colleague engagement eNPS score

+30

2022 target: +24

2020	N/A
2021	+23
2022	+30

Definition
Colleague engagement is a holistic measure of how our colleagues feel about working at Phoenix Group which is assessed monthly.

Why it matters?
We are seeking to make Phoenix the 'best place our colleagues have ever worked' and so getting regular colleague feedback is important to enable us to track progress and respond to feedback as we deliver on our ambition.

Future target
Our colleague engagement eNPS score target for 2023 is +13, which is lower than 2022 due to the expected impact of the recent ReAssure integration organisational changes.

Links
REM APM

Female senior leaders (%)

39%

2022 target: none

2020	N/A
2021	38%
2022	39%

Definition
The proportion of females represented in leadership roles.

Why it matters?
At Phoenix Group we want to ensure our colleagues represent our wider community and so we are committed to promoting diversity and inclusion across the business, which enables colleagues to bring their whole self to work.

Future targets
40% of women in leadership roles by the end of 2023.

Links
REM APM

Ethnic minorities representation (%)

12%

2022 target: none

2020	N/A
2021	9%
2022	12%

Definition
The proportion of people from an ethnic minority background in our total colleague population.

Why it matters?
At Phoenix Group we want to ensure our colleagues represent our wider community and so we are committed to promoting diversity and inclusion across the business, which enables colleagues to bring their whole self to work.

Future targets
Increase our ethnic minorities representation to 13% by the end of 2023.

Links
REM APM

Priorities for 2023

- Progress our ongoing migrations to TCS BaNCS and realise further cost synergies.
- Further develop our internal talent pool and improve our colleague engagement.
- Execute on our regulatory change agenda including the IFRS 17 accounting change and the Solvency II reforms.
- Deliver our ambitious sustainability targets including for Diversity, Equity and Inclusion.

Business review

Delivering cash, resilience and growth

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

Rakesh Thakrar, Group Chief Financial Officer

Scan the code to watch the video →

A strong financial performance in 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our key performance indicators

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

Alternative performance measures

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

Cash generation

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

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

Solvency II

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

Fitch leverage

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

Incremental new business long-term cash generation

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

Group in-force long-term free cash

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

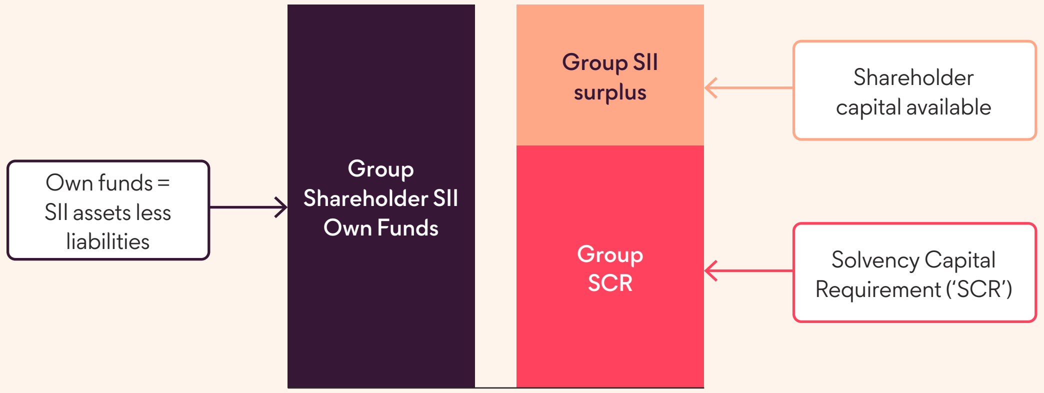
Assets under Administration

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

Adjusted operating profit

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

Why is Solvency II important to us in measuring performance?



What are Own Funds?

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

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

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

What causes Own Funds to change?

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

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

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

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

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

What causes the SCR to change?

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

Why is Solvency II surplus a key measure for Phoenix?

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

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

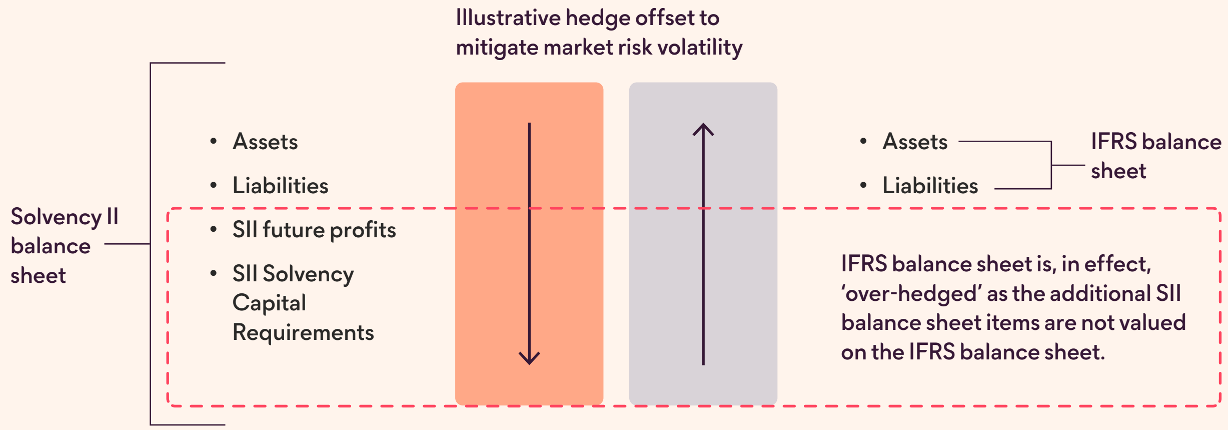
Shareholder Capital Coverage Ratio ('SCCR')

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

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

Phoenix Group's comprehensive hedging approach

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



Impact of market rise

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

Impact of market fall

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

Our risk management in action

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

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

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

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

Cash

Operating companies' cash generation
£1.5bn

Group in-force long-term free cash
£12.1bn

Cash generation

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

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

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

Group cash flow analysis

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

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

Cash receipts

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

Uses of cash

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

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

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

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

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

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

Debt repayments

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

Shareholder dividend

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

Support of BPA activity

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

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

Future cash targets set

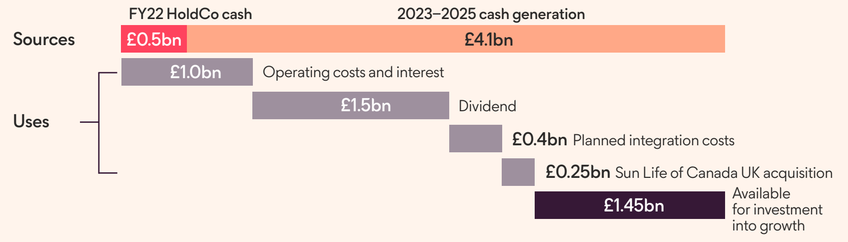
Our business model is designed to deliver high levels of predictable cash generation, enabling us to set very clear targets. We are therefore setting a one-year target of £1.3 to £1.4 billion again in 2023.

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

Future sources and uses of cash

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

Illustrative 2023–2025 HoldCo sources and uses of cash



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

Group in-force long-term free cash

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

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

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

Group in-force long-term free cash

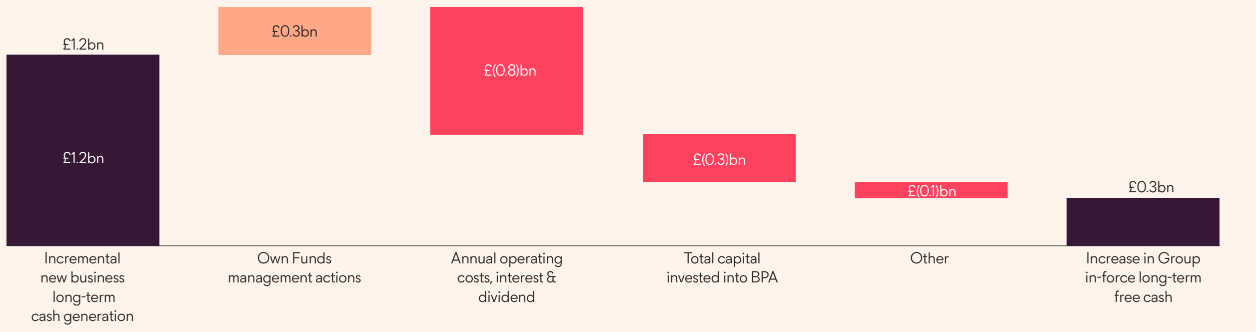
£bn	Group in-force LTFC Year ended 31 December 2022	Group in-force LTFC Year ended 31 December 2021
Long-term in-force cash generation	17.3	17.0
Plus closing Holding Company cash	0.5	1.0
Less M&A and transition costs	(0.4)	(0.2)
Group in-force long-term cash	**17.4**	**17.8**
Less shareholder debt	(4.1)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

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

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

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

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



Resilience

Group Solvency II surplus (estimated)
£4.4bn

Group Shareholder Capital Coverage ratio (estimated)
189%

Capital management

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

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

Group Solvency II capital position

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

Change in Group Solvency II surplus and SCCR

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

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

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

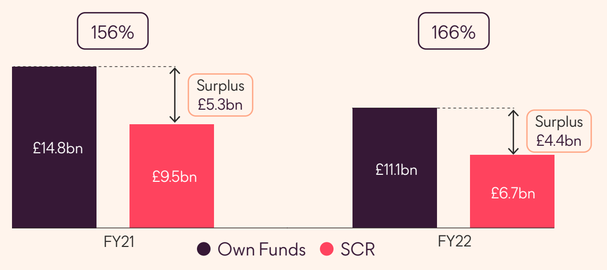
As a result of our comprehensive hedging strategy, designed to stabilise our capital position, we have minimised the adverse impact from economic variances to just a £(0.4) billion impact on our Solvency II surplus, despite unprecedented market turbulence last year. While this surplus movement from economics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

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

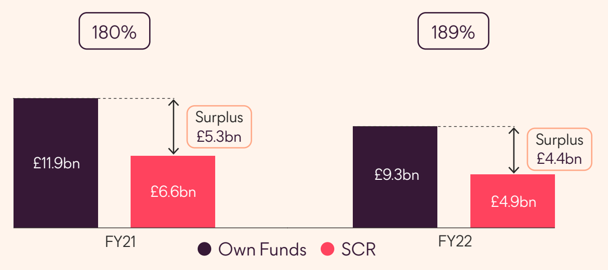
We also invested £0.3 billion of capital into growth, primarily for the funding of £4.8 billion of BPA premiums written in the year, which decreased the SCCR by 7%pts.

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

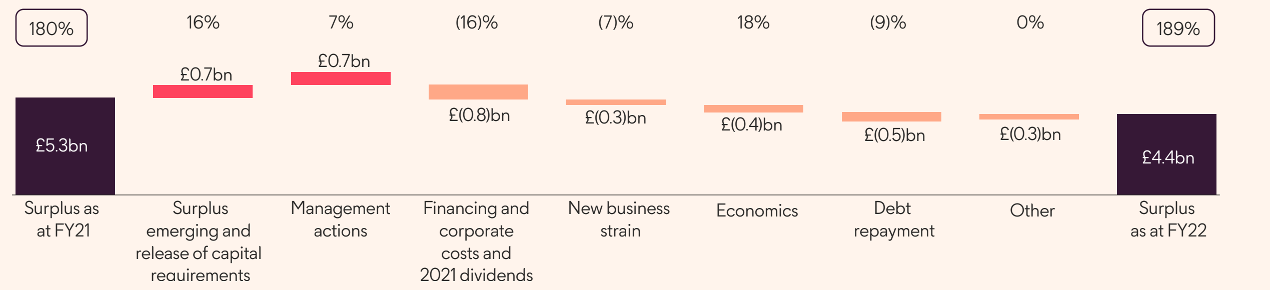
£4.4 billion Group Regulatory Solvency II surplus



£4.4 billion Group Shareholder Solvency II surplus



2022 change in Group Solvency II Surplus (£bn)



Sensitivity and scenario analysis

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

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

Unrewarded market risk sensitivities

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

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

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

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

Illustrative risk exposure stress testing

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

1 Illustrative impacts as at 1 January 2022 assume changing one assumption while keeping others unchanged, and reflects the business mix at the balance sheet date, and that there is no market recovery. Extreme markets movements outside of these sensitivities may not be linear.
2 Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interaction of rates with other correlated risks including longevity.
3 Stress reflects a structural change in long-term inflation with an increase of 60bps across the curve.
4 Property stress represents an overall average fall in property values of 12%.
5 Credit stress varies by rating and term and is equivalent to an average 135bps spread widening. It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
6 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
8 Applied to the annuity portfolio.

Rewarded credit risk sensitivities

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

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

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

Demographic risk sensitivities

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

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

Life Company Free Surplus

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

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

Growth

Incremental new business long-term cash generation
£1.2bn

Assets under Administration
£259bn

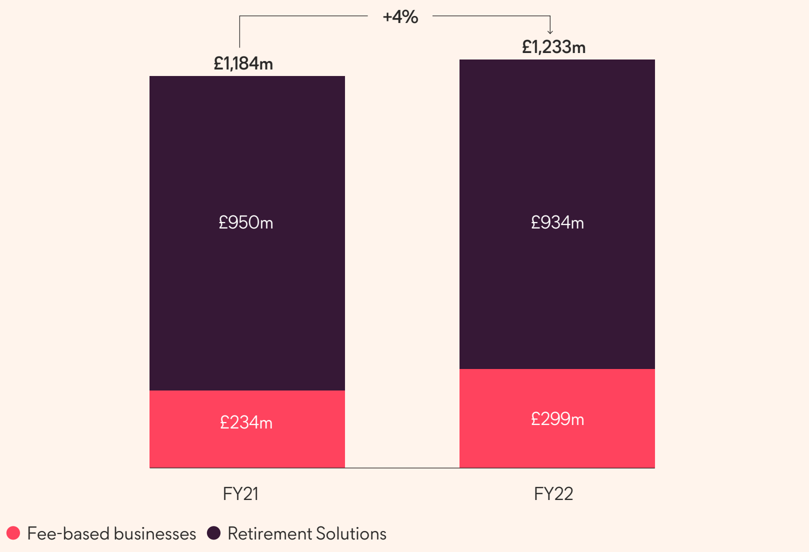
Incremental new business long-term cash generation reflects the impact on the Group's future cash generation arising as a result of new business transacted in the year. It is stated on an undiscounted basis.

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

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

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

Incremental new business long-term cash generation



Incremental new business long-term cash generation

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

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

Retirement Solutions

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

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

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

Fee-based businesses

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

Pensions & Savings: Workplace

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

Pensions & Savings: Retail

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

Europe

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

SunLife

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

Group AUA

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

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

Heritage net flows

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

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

Retirement Solutions net flows

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

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

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

Pensions & Savings: Workplace net flows

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

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

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

Pensions & Savings: Retail net flows

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

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

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

Other fee-based businesses net fund flows

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

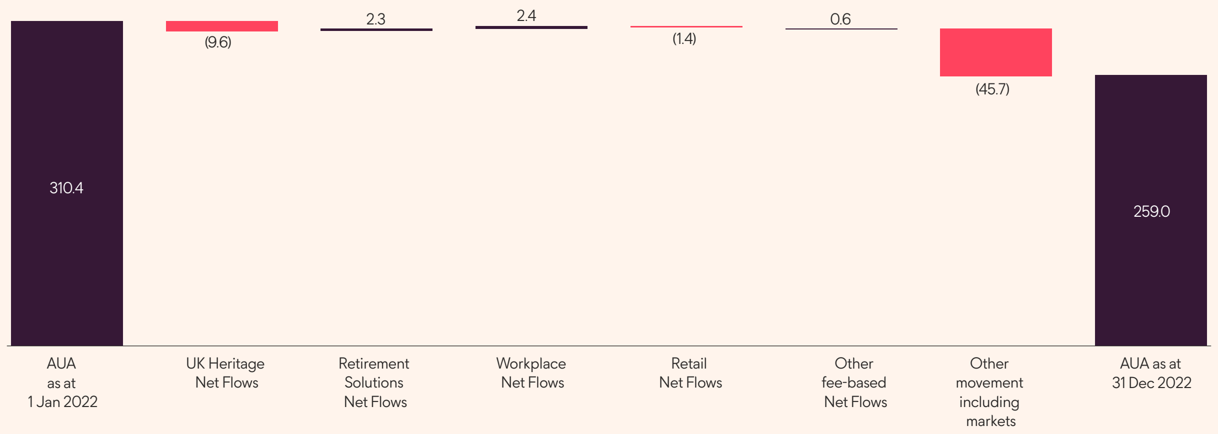
Gross inflows were £2.5 billion in the year (2021: £2.8 billion), primarily reflecting our individual retirement products sold in Europe, while outflows of £1.9 billion in the year (2021: £2.0 billion) are largely due to the natural run-off of our European business.

Other movements including markets

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

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

Movement in AUA (£bn)



IFRS results

Adjusted operating profit
£1,245m

Fitch leverage ratio
30%

IFRS loss after tax
£(1,762)m

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

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

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

IFRS loss after tax attributable to owners

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

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

Basis of adjusted operating profit

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

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

IFRS profit and loss statement

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

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

Adjusted operating profit

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

Heritage adjusted operating profit

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

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

Open adjusted operating profit

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

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

Service company

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

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

Group costs

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

Investment return variances and economic assumption changes

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

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

Amortisation and impairment of acquired in-force business and other intangibles

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

Other non-operating items

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

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

Finance costs

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

Tax credit attributable to owners

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

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

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

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

Financial leverage

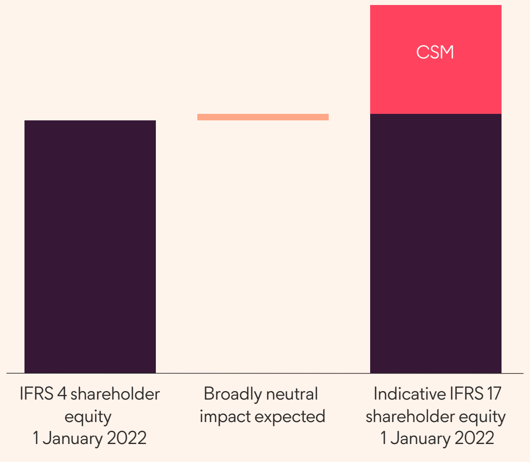
The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. The financial leverage ratio as at 31 December 2022 is 30% (31 December 2021: 28%).

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

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

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

Illustrative change in shareholder equity and recognition of CSM



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

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

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

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

Business review continued

Dividend

Total 2022 dividend per share

50.8p

dividend increase in the Final 2022 dividend

+5%

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

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

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

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

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

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

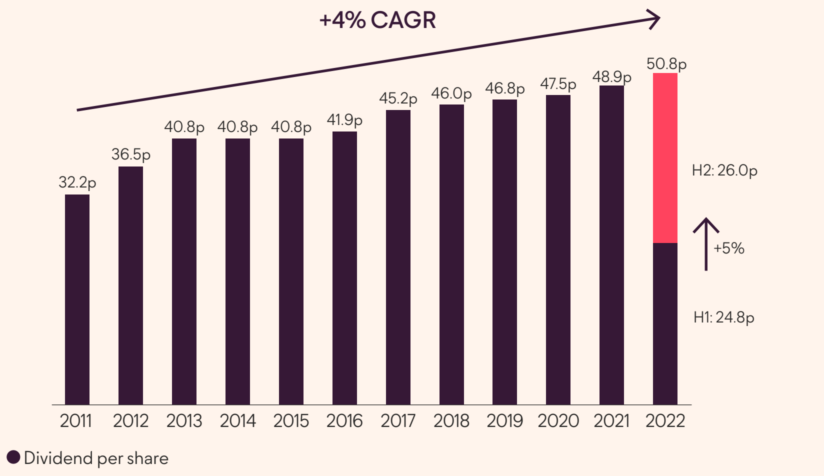
As a result, the Board has recommended a dividend increase of 5% in the Final 2022 dividend to 26.0 pence per share, This equates to a Total 2022 dividend of 50.8 pence per share.

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

2.5%	+	2.5%	=	5%
Organic dividend increase reflects our strong strategic and financial performance in 2022		**Inorganic dividend increase** for the Sun Life of Canada UK acquisition		**Final dividend increase** effective from, and including, the 2022 Final dividend

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

Strong dividend track record



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

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

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

Outlook

Phoenix is a growing, sustainable business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Rakesh Thakrar
Group Chief Financial Officer

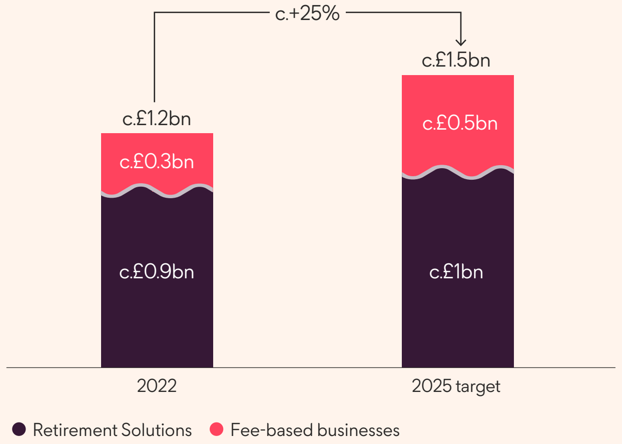
2023 targets

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

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

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

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



Stakeholder engagement

Improving stakeholder outcomes

As a purpose-led business we seek 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 maintain a high standard of integrity across all engagements.

Section 172 statement

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

Examples of how Directors have considered these matters in connection with key decisions linked to our strategic priorities are detailed on pages 84 to 87 of the Corporate Governance Report. →

Key stakeholder groups

	Customers	Suppliers	Colleagues	Community	Investors	Government, trade bodies and regulators
	Phoenix Group has c.12 million customers and manages £259 billion of assets. We offer a broad range of pensions and savings products to support people across all stages of the savings life cycle.	**We seek to ensure that our c.1,500 partners and suppliers adhere to the highest environmental and ethical standards.**	**We have colleagues based across the UK, Ireland and Germany. Our operational sites include London, Wythall, Edinburgh, Telford, Hitchin, Norwich, Bristol, Dublin and Frankfurt.**	**We are committed to making a difference in the communities in which we are based, interacting with educational institutions, charities and local community groups.**	**We maintain an active dialogue with institutional equity and debt investors, individual investors, rating agencies and sell side research analysts.**	**We engage with various political stakeholders at Westminster and Holyrood, along with key trade bodies representing the industry, and regulators including the PRA, FCA ,CBI and TPR**
What matters to them	• Products and services that meet their needs at different stages of their savings life cycle • Clear communication and integrity as well as trust in their funds being managed safely • Customer service and support that promotes positive outcomes and empowers better financial decision making • Understanding and support for those experiencing vulnerability, particularly through key life events and moments of heightened pressures	• A collaborative approach and long-term relationships based on trust • Clear mutual expectations and ESG standards for all suppliers covering carbon reduction targets, modern slavery and health and safety • Enabling entity consistency in social responsibility through supply chain	• Having a sense of belonging and connection to Phoenix's purpose and values, and being empowered to make a difference • A diverse and inclusive workplace • Flexible ways of working that best suit their needs • Opportunities for personal and career development • Recognition and reward for performance • Engaging in effective two-way feedback • Support to help navigate the cost of living crisis	• Investment into local innovation, infrastructure and sustainable communities • Providing fulfilling work and economic growth, including social mobility • Financial and volunteering support to our local charities • Educational support to our local schools • Using our scale and influence to take action on key societal and environmental concerns	• Regular updates on the Group's strategy, operations and performance • Clear communication of investment proposition and comprehensive financial disclosures to enable investors and analysts to appropriately evaluate Phoenix Group as an investment • Regular engagement with management on business performance and governance matters • Annual review meeting with Fitch Ratings • Named and clear points of contact for queries	• Effective regulatory engagement, transparency and compliance • Evidencing the regulators' key areas of interest (outlined annually) have been addressed • Actively contributing to policy developments impacting long-term savings and insurance • Collaboration with a range of trade associations, such as the Association of British Insurers, Confederation of British Industry, and TheCityUK
How we engage	• We engage through a variety of channels and are adapting our service and product propositions to help more customers journey to and through retirement • We continuously seek new ways to better identify, manage, and support vulnerable customers, driving consistency and excellence across the Group • We conduct direct customer research, and regularly review and integrate feedback into our decision making • We continue to integrate ESG into our investment solutions	• We maintain an active dialogue to identify areas for collaboration and support our suppliers' progress towards our standards • In 2022, we developed our ESG Supply Chain Standards for key suppliers in line with best practice, detailing our expectations of them. The Standards are due for publication in late March/ early April 2023 and will support the current Code of Practice • We continue to engage with the ABI Sustainable Supply Chain Working Group, the CDP Supplier Survey and the Indirect Spend Alliance.	• We embed our purpose and ambition through clear colleague objectives and career goals • Our colleagues are enabled to speak up through a continuous listening culture, including regular engagement surveys • We also engage through our colleague representation groups, colleague-led networks, regular intranet communications and Phoenix Together events • Phoenix Colleague Representation Forum have quarterly engagement meetings with Maggie Semple, our Director of Workforce Engagement	• We hold regular meetings with charity partners and partnership schools, and stay connected with other causes • We invite our colleagues to input on matters important to them in their communities • We routinely undertake surveys and collect feedback	• Comprehensive engagement programme, including regular investor roadshows, results presentations, sales briefings and conferences • We held a Capital Markets Event in December to provide a deep-dive into the Group's organic growth opportunities and showcase the depth of our senior management • We conducted >200 interactions with shareholders, debt investors and financial analysts, and also attended numerous conferences in the UK and overseas • Our Chair held a Stewardship roadshow in January 2023 with our major institutional investors	• Comprehensive and robust regulatory engagement programme, co-ordinated through centralised Regulatory Relationships Team • Colleagues from all over our business actively engage on trade association committees • Andy Briggs, Group CEO, chairs the ABI Climate Change Board Committee, co-chairs an employer trade organisation round-table with the Minister for Employment and sits on a number of other industry forums • Andy Curran, CEO Standard Life, chairs the ABI's Long-Term Savings Committee, and also sits on the ABI Board
Outcomes of engagement	• Sustained high customer satisfaction scores of 92% for Combined Group telephony and 94% for Standard Life digital journeys, exceeding our 2022 targets of 90% and 92% respectively • Launched our Vulnerable Customer Centre of Excellence, receiving industry awards • 1.2m customers directly offered digital literacy materials • Responded to cost of living crisis, including financial difficulty pages on our websites and reviewing products to provide flexibility • Transitioned 1.5m customers and c.£15bn of assets into our new default Sustainable Multi Asset solution • Launched financial inclusion strategy	• 82% of our key suppliers have now committed to Science Based targets ('SBTi') or UN Race to Zero targets • 96% of key suppliers have published a Modern Slavery Statement • 92% of our suppliers were paid within 60 days in 2022 • 93% of assigned operations colleagues have been trained in ESG • Our 2021 and 2022 Scope 3 emissions have been mapped against the 2019 baseline	• A people strategy aligned to our vision of being the best place colleagues have ever worked • Initiatives to progress Diversity, Equity & Inclusion • Access to mental health & well-being tools • Provision of mobile technology to all colleagues to support our flexible ways of working • In 2022, we ranked 24th on the Social Mobility index (41st in 2021) and we won Employer of the Year at the FTAdviser Diversity in Finance Awards • Comprehensive cost of living support package, including one-off net payment of £1,000 to all colleagues[1], access to free money coaching, free meals and support with cost of parking 1 Payment made in August to all employees except our most senior staff	• c.£815,000 collectively donated to registered charities by the Group, our colleagues and third parties • During the year, colleagues have volunteered c.6,455 hours to support our communities, up from c.2,650 hours in 2021 • 42% of colleagues involved in community engagement activities throughout 2022 • Standard Life became a founding partner for the new Samaritans Training School, with a donation enabling around 400 more listening volunteers to be trained	• Ongoing engagement enables a two-way dialogue between Phoenix and its investors, analysts and ratings agencies, ensuring a good understanding of the company strategy in the market, and enabling feedback to be considered in our strategic decision-making • The Directors recommended a 5% increase in the Group's 2022 Final Dividend to 26.0p (total dividend of 50.8p), comprising both organic and inorganic growth • The Group's Insurer Financial Strength rating is AA- (Fitch rated)	• Positive industry outcome on Solvency II, which will help government meet its objective of increasing insurance capital deployment into the real economy • Our regulated subsidiaries have approved capital policies for distributions which protect customers • Approval of a new Irish entity (PLAEI) by the CBI, followed by a Part VII transfer of the Irish branch business, Icelandic, German, Swedish and Norwegian business which was approved by the UK and relevant EU regulators and the Courts, meeting the post-Brexit deadline of YE 2022.
Read more	• On pages 22 to 25 • In our 2022 Sustainability Report • standardlife.co.uk • phoenixlife.co.uk • reassure.co.uk • sunlife.co.uk	• In our 2022 Sustainability Report and 2022 Climate Report, along with our ESG Supply Chain Standards • Our website: thephoenixgroup.com/sustainability/working-responsibly-suppliers	• On pages 108 to 109 • In our 2022 Sustainability Report • Our website: thephoenixgroup.com/sustainability/people-and-culture	• In our 2022 Sustainability Report	• On our website: thephoenixgroup.com/investor-relations	• In our 2022 Sustainability Report

Non-financial information statement

As required by the Companies Act 2006 sections 414CA and 414CB, this table outlines our non-financial information statement with a reference to relevant policies and additional documents.

Our policies

Environment

Phoenix Group is committed to protecting the environment; the health and well-being of our colleagues and the customers and communities in which we operate. We aim to reduce the impact on the environment from our operations and demonstrate leadership in minimising emissions that contribute to climate change.

Our environmental strategy focuses on four key areas:

Our Net Zero Commitment – We are committed to addressing climate change and limiting global warming to 1.5°C. Our objective is for our operations to be net zero by 2025.

Waste and Recycling – We will implement sustainable waste management practices including the removal of all single use plastics from our operations by 2030.

Conservation – We are committed to supporting conservation in our communities.

Employee Engagement – We will support colleague understanding of environmental issues and promote engagement in environmental action.

We have a range of policies including our Group Environmental policy, Environment Risk policy, Supplier Code of Conduct, Responsible Investment Philosophy and Sustainability Risk policy.

In addition, an exercise is ongoing to update all Group risk policies to consider sustainability matters.

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. Our Group approach to support the health and well-being of colleagues is a key enabler to build an inclusive, attractive, and safe working environment that can adapt and respond quickly to change. We are keen to create a sense of belonging, so colleagues feel connected to our purpose and values, empowered to make a difference and motivated and proud to be part of our story.

A key priority for our business is to ensure diversity at the Phoenix Group to create a workplace that is inclusive and reflective of our communities and enables colleagues to bring their whole self to work.

We champion gender equity through promoting a strong pipeline of female executive talent for the future.

The table below outlines our gender diversity metrics as at 31 December 2022[1]:

Board members[1]	Female	7	54%
	Male	6	46%
Senior managers[2]	Female	27	36%
	Male	47	64%
All employees[3]	Female	4,301	52%
	Male	4,032	48%
Senior managers and their direct reports[4]	Female	44	54%
	Male	38	46%

1 Companies Act 2006, s.414C(8)(c)(i)
2 Companies Act 2006, s.414C(8)(c)(ii)
3 Companies Act 2006, s.414C(8)(c)(iii)
4 Provision 23, UK Corporate Governance Code

Social and community

Customers
The Group's Customer Outcomes 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.

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 the customer experience and vulnerable customer support.

Suppliers
We set out strict standards of corporate behaviour for all our people to follow. This includes complying with all applicable laws and regulations, protecting human rights, providing a safe place of work, and minimising our direct and indirect environmental impact. We also expect our suppliers to adhere to high standards in the way that they operate. The Supplier Code of Conduct outlines the minimum conduct standards to which suppliers must adhere when doing business with us. Suppliers must be able to demonstrate adherence to this Code of Conduct if requested and failure to demonstrate compliance will lead to a review of the supplier contract.

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 systems in place and to publish their health and safety performance externally. Suppliers must meet and evidence the standards and obligations in the Modern Slavery Act 2015 and must respect the human rights of their employees and comply with all relevant legislation, regulations and directives in the countries and communities in which they operate.

Communities
We aim to make a positive and lasting difference in the communities in which we are based, addressing societal issues identified at a micro level. Through our commitment to being a responsible business our colleagues can participate in a range of community-based activities, utilising their collective time, skills, knowledge and resources. Colleagues can take two days for individual volunteering and a further day with their team, and support any charity of their choice across the UK and Europe through fundraising and payroll giving schemes.

Human rights

At Phoenix, we are ambitious in our desire to lead the way in respecting human rights and recognise our responsibility to do this in accordance with:

- The International Bill of Human Rights.
- The International Labour Organization's ('ILO') Core Conventions.

As an asset owner, we also align with the Organisation for Economic Co-Operation and Development ('OECD') Guidelines for Multinational Enterprises, a set of responsible business conduct standards for multi-national enterprises, as well as the OECD guidance on responsible business conduct for institutional investors.

We are committed to fully aligning with the United Nations Guiding Principles on Business and Human Rights ('UNGPs'), the authoritative global framework on business and human rights, and our ambition is to encourage other organisations to do the same.

During 2022 we appointed a human rights consultant to review our alignment to the UNGPs by conducting an assessment and identifying opportunities for improvement. As a result, we have developed a roadmap to address gaps and are committed to closing these within the next three years.

During 2023 we will further develop existing policies and procedures to include human rights considerations.

Anti-bribery and corruption

Phoenix Group has a zero-tolerance policy to bribery and corruption in all its forms.

Phoenix Group is committed to countering bribery and corruption with suitable policies and procedures. We have an anti-bribery programme in place designed to prevent the occurrence of bribery. This includes, for example:

- An Anti-Bribery Policy at Group level.
- A Code of Ethics for ethical behaviour and general standards.
- A Group Stewardship Policy which details our stewardship approach.
- Mandatory training for our employees covering compliance with the Bribery Act.

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.

The Group also operates a Whistleblowing policy, prompting colleagues to disclose information where they believe wrongdoing, malpractice or risk exists across any of Phoenix Group's operations.

Due diligence

Environment

Andy Briggs, Group CEO, is responsible for embedding sustainability within the Group, in line with the strategy set by the Group Board. The Group CEO reports directly to the Board on all sustainability activity across the business including the environmental policy. We will monitor and review our environmental performance against our environmental commitments set out in our policy and the net zero requirements.

We report on our environmental performance annually and review the policy to ensure it remains relevant and appropriate. We work with our key suppliers to develop best practice carbon management, including science-based net zero targets, and robust waste minimisation including reduction of single-use plastic strategies.

Colleagues

Adherence to the HR 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.

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

We have a range of tools and resources available to support our colleagues, their dependents, family members and loved ones to help look after their personal health and well-being.

Social and community

Our Data Protection Officer monitors compliance with the GDPR and DPA 2018 and owns the Group Privacy policy and Data Protection Risk policy. Our Chief Information Security Officer monitors Cyber risks and manages a comprehensive programme of continuous improvement of Security Controls and a dedicated Security Operations team to respond to emerging cyber threats. The Group is well-positioned to resist cyber-attacks and has had no significant cyber-related incidents in 2022, and there was no compromise to our systems or data as a result of any cyber events within our supply chain.

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.

The Supplier Code of Conduct outlines the minimum ESG requirements for all our suppliers. We accelerated our expectations of all 1,500 partners and suppliers and published our Supplier Open Letter which set out our ESG requirements that include adoption of Science-Basted Target initiative ('SBTi') carbon reduction targets; implementing a plan to tackle and report on modern slavery, and meeting best practice health and safety standards.

Human rights

During 2022, we commissioned a high-level saliency scan by an independent third party to identify and assess our potentially salient human rights issues that we should prioritise for further action.

We intend to further advance our ability to identify and manage our human rights risks, through conducting human rights saliency assessments of our operations and value chain as part of our due diligence processes in the next two years. This includes undertaking a supply chain field assessment, portfolio-level human rights assessment, as well as assessing human rights risks in countries of operations and high-risk business relationships on an ongoing basis.

Anti-bribery and corruption

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.

Outcomes

Environment

Read more about our net zero and climate-related reporting commitments and KPIs on pages 48–51 and our sustainability actions in the 2022 Sustainability Report. Our GHG emissions and energy consumption disclosure can be found on pages 46–47.

Colleagues

Other relevant colleague engagement, including Diversity, Equity and Inclusion data can be found on pages 26 to 27 as well as in our 2022 Sustainability Report.

Social and community

Information on our customer satisfaction scores and initiatives can be found on pages 22 to 23 and in our Sustainability Report.

Information on relevant supply chain metrics and communities metrics can be found in our 2022 Sustainability Report.

Human rights

During 2022, the Group effectively resolved all colleague disputes and as a result has not been subject to any adverse Employment Tribunals judgements or awards.

Reporting on our salient human right issues, actions, and progress to align with the UNGPs through our annual sustainability report.

Anti-bribery and corruption

The Group's governance processes for financial crime prevention, anti-bribery and anti-corruption, ethics and compliance training, whistleblowing and speaking up can be found on our Group website.

For further information

Environment

- Our sustainability policies: thephoenixgroup.com/sustainability/reports-and-policies

Colleagues

- Health and Well-being approach: thephoenixgroup.com/sustainability/people-and-culture/wellbeing
- Health and Well-being Statement: thephoenixgroup.com/HealthWellbeingStatement
- Diversity, Equity and Inclusion: thephoenixgroup.com/sustainability/people-and-culture/diversity-and-inclusion
- HR Frameworks: thephoenixgroup.com/HRFrameworks

Social and community

- Privacy Policy: thephoenixgroup.com/site-services/privacy
- Supplier Code of Conduct: thephoenixgroup.com/sustainability/working-responsibly-suppliers
- Supplier Open Letter: thephoenixgroup.com/SupplierOpenLetter
- Community Statement: thephoenixgroup.com/CommunityStatement

Human rights

- Phoenix Group 2022 Modern Slavery and Human Rights Statement: thephoenixgroup.com/site-services/modern-slavery-and-human-trafficking

Anti-bribery and corruption

- Governance: thephoenixgroup.com/about-us/governance
- Anti-bribery statement: thephoenixgroup.com/about-us/governance/anti-bribery

This section primarily covers our non-financial information as required by the regulations. Other related information can be found as follows:

For further details on our key performance indicators, see pages 18 to 27 →

For further details on our business model see pages 14 to 17 →

For further details on our principal risks and how they are managed, see pages 52 to 67 →

Streamlined Energy and Carbon Reporting ('SECR') statement

Greenhouse Gas ('GHG') Emissions and Energy Consumption Disclosure

This is Phoenix Group's Streamlined Energy and Carbon Reporting ('SECR') statement on the Group's UK and global energy consumption and GHG emissions for the financial year 1st January 2022 to 31st December 2022, and the 2021 comparative year. Emissions disclosed here relate to energy consumption, facilities, and activities where Phoenix Group has operational control.

Methodology

Phoenix Group has used the GHG Protocol Corporate Standard (revised edition) and emissions factors from the International Energy Agency ('IEA'), DEFRA UK Government Conversion Factors, and Association of Issuing Bodies ('AIB') European Residual Mix 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 the 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 the Group for its own use. In addition, the Group estimates Scope 3 emissions associated with employee homeworking and employee commuting, as well as business travel from other third party owned/operated sources, including air, taxi and rail travel.

Reported data relates to occupied premises in UK, Ireland, Germany, Austria and Bermuda, where the Group procures energy. Where energy consumption is sub-metered to tenants and in occupied assets that the Group does not directly own or operate (i.e. serviced offices), GHG emissions falls into Scope 3 reporting, whereas all other landlord-obtained consumption remains as Scope 1 or 2 emissions.

The Group reports Scope 2 emissions using the GHG Protocol dual-reporting methodology, stating two figures, to reflect the GHG emissions from purchased electricity:

- A location-based method – reflects the average emissions intensity of the national electricity grids from which consumption is drawn.
- A market-based method – 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.

In future, the Group will prioritise market-based emissions reporting to focus on the actual carbon impact of its energy consumption, recognising the organisation's actions to promote sustainable procurement and improve environmental outcomes.

Prior to 2022, emissions from a number of the Group's investment properties were considered Scope 1 and 2, as the approach for those assets was historically that of financial control. Properties managed by other asset management partners were reported under operational control. As of 2022, to provide a consistent reporting framework, any direct investment assets that historically adopted a financial control approach will now be considered under operational control and will therefore be reported within investment related carbon (scope 3) within the TCFD report.

Commentary on Performance

Overall, in 2022 there was 43.2 GWh of Group global energy consumption (building energy and business travel) as shown in Table 1, 97% of which was from UK operations. This is a substantial decrease on the 76.4 GWh of global energy consumption reported in 2021, and is primarily due to the change in reporting methodology. In addition, 24.4 GWh of energy consumption from employee homeworking has been estimated in 2022, of which 92% occurred within the UK. In GHG emissions terms (Scopes 1+2+3), 94% of Phoenix Group's emissions occurred at UK sites.

Due to the continued development and improvement in the Group's reporting methodology, meaningful comparisons with previous years' energy consumption and GHG emission is not possible. However, in absolute terms, the Group's GHG emissions (location-based Scope 1 + 2, per Table 2) have decreased 46%. Business travel remains comparable with 2021, and a significant increase of 222% can be observed in 2022. This is the result of continued easing of worldwide travel restrictions, following two years of limitations. The Group is addressing this opportunity for improvement, and is continuing to investigate technological solutions to reduce business travel where possible. In addition, both intensity metrics reported in Table 3 show continued decreases; by 10% on an FTE basis and 9% on a m^2 basis. This reduction shows that the Group continues to remain on its pathway to net zero carbon in operations by 2025.

The Group continues to procure approximately 100% of its electricity from certified renewable sources meaning market-based Scope 2 emissions are significantly less than the location-based emissions as shown in Table 2. To recognise the importance of addressing remaining carbon emissions which cannot yet be eliminated, the Group has continued to purchase gold standard certified carbon offsets for natural gas consumed in its owned and occupied assets, constituting an estimated 1,994 tCO_2e in 2022.

Energy consumption and greenhouse gas emissions[1]

Table 1. Absolute energy consumption in GWh

Consumption, GWh[2] from:	2022	2021
Building Electricity	24.1	45.4
Building Natural Gas	18.7	31.0
Business Travel	0.4	0.1
Homeworking Electricity	1.5	1.7
Homeworking Natural Gas	22.9	26.1
Total Consumption	67.6	104.3

a GHG emissions and energy consumption statement pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the SECR Regulations)

b Business travel (GWh) does not include air, taxi or rail due to lack of applicable conversion factors for this data, however GHG emissions from these sources are still included in Table 2

Table 2. Absolute GHG emissions in tonnes of CO_2e

	2022		2021	
Emissions, tonnes of CO_2e, from:	(market-based)	(location-based)	(market-based)	(location-based)
Scope 1 — Combustion of fuels, business travel (in company owned and operated vehicles), and fugitive emissions of refrigerant gases	2,684	2,684	4,812	4,812
Scope 2 — Electricity purchased for landlord shared services and own use (purchase of heat, steam and cooling not applicable)	7	4,437	21	8,342
Scopes 1 + 2 — Mandatory carbon footprint disclosure	**2,692**	**7,121**	**4,833**	**13,154**
Scope 3 — Category 3: Fuel and Energy Related Activities (T&D)	356	356	1	722
Scope 3 — Category 6: Business Travel	1,149	1,149	356	356
Scope 3 — Category 7: Employee Commuting (incl. Homeworking Emissions)	4,847	4,631	5,487	5,294
Scope 3 — Category 8: Upstream Leased Assets	2,018	1,826	2,051	1,765
Scope 3 — Category 13: Downstream Leased Assets	0	313	312	2,723
Scopes 1 + 2 + 3 — Voluntary carbon footprint	**11,062**	**15,395**	**13,040**	**24,014**
Carbon Offsets Purchased	**1,994**		**2,453**	

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 travel). There is a significant time-lag in the availability of IEA factors –2022 factors will not be published until late 2023. Therefore all 2022 consumption data are converted using the factors actually arising in 2018 (except business travel which uses DEFRA factors as published in 2022).

2 **Energy Units:** 1 GWh = 1,000,000 kWh

Table 3. Phoenix Group's chosen intensity measurement

	2022		2021	
Emissions (kilogrammes and tonnes) of CO_2e per chosen intensity metric:	(market-based)	(location-based)	(market-based)	(location-based)
Scope 1+2 emissions from occupied premises per floor area (kg CO_2e/m^2)	26	57	30	62
Scope 1+2 emissions from occupied premises per full-time equivalent employee (tCO_2e/FTE)	0.34	0.73	0.38	0.81

Energy Intensity Metrics

The Group's chosen operational intensity metrics detail GHG emissions per occupied floor area (m^2) and per FTE in occupied premises (Table 3). The methodology to establish whether buildings should be included in the intensity metric only covers occupied buildings where emissions are considered Scope 1 and 2 and where twelve months of data is available in the current reporting year, meaning some sites were excluded from this calculation. To calculate the intensity for both per occupied floor area and per FTE per occupied premises, the applicable occupied floor area and FTEs respectively were summed and then divided by the total Scope 1 and 2 emissions for these buildings.

Both the m^2 and FTEs intensities have continued to decrease in 2022, which is the result of the Group's ongoing efforts to improve energy efficiency and reduce it's impact on the environment through it's operations, as described below in the Energy Efficiency Action section.

Energy Action (Climate Change Actions)
To maximise the environmental impact of capital expenditure, spending was prioritised based on the potential carbon impact of projects across the operational estate. Many projects were undertaken in offices that need to stay operational throughout the year; thus, the work has been phased over a number of years. This means that energy and carbon savings may fluctuate depending on the extent of works carried out in a particular year.

The following is a selection of projects for 2022:

- Completed the replacement of roof glazing with photovoltaic glass. To date this has produced 1,880 kWh of on-site renewable electricity.
- Continued to roll out higher efficiency LED lighting across applicable buildings.
- Upgraded building control systems to allow for greater flexibility and operational efficiency.
- Upgraded fans and retrofitted inverter controls within ventilation systems.
- Replaced inefficient gas boilers in two buildings giving savings of 1,950 MWh per year.

In line with the Group's Eliminate-Reduce-Substitute-Compensate carbon reduction model, applicable opportunities will continue to be reviewed. Additionally, technological solutions are also being investigated in order to facilitate and improve remote collaborations between colleagues, enabling the Group to reduce business travel.

Building improvement works will continue as needed to include efficiency measures such as improved controls (to switch unnecessary equipment and lighting off), more efficient equipment, and improved building fabric where necessary.

Task Force on Climate-Related Financial Disclosures ('TCFD') – summary report

Climate change is one of the greatest global challenges we face today and we believe Phoenix has a significant role to play in helping to address the climate emergency, accelerating the transition to a net zero economy and managing financial risk for our customers and shareholders. We aim to be a net zero business by 2050.

Governance
The Group's strategic approach to sustainability (including climate change) is overseen by the Group Board and climate related responsibilities are delegated to certain Board Committees dependent on their overall purpose and remit. The allocation of responsibilities is summarised below:

- The Board Risk Committee considers climate risk as part of its bi-annual review of principal and emerging risks and oversees climate related risks within the Group Risk Management Framework (including oversight of the Group's climate related stress and scenario testing).
- The Board Audit Committee is responsible for overseeing material Environmental, Social and Governance ('ESG') reporting, including climate-related reporting.
- The Board Sustainability Committee is responsible for monitoring performance against the Group's sustainability strategy, including climate strategy and related opportunities.
- The Board Remuneration Committee is responsible for ensuring appropriate ESG elements (including climate-related targets) are included within the Group remuneration framework. More detail on these targets can be found on pages 129 to 130 of the Directors' Remuneration Report.

Cross-committee membership and engagement between the Board Committees listed above drive consistency of climate strategy and risk management across the Group's governance framework.

The Group's Chief Executive Officer is responsible for implementation and delivery of the Group's overall strategy. The sustainability strategy, including climate strategy (to address risks and opportunities), forms part of the Group strategy. The Group's Chief Financial Officer ('CFO') and Chief Risk Officer ('CRO') are appointed as joint Senior Management Function holders ('SMF's) responsible for climate-related financial risk under the Senior Managers and Certification Regime. 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.

A number of key management and operational groups also have specific responsibilities for climate-related activities.

Enterprise Sustainability Committee – comprised of key executives who meet at least six times a year and are responsible for ensuring implementation of the Phoenix sustainability strategy and associated opportunities (including related to climate change); and monitoring progress against strategy, KPIs and targets; and supporting Board Committees.

TCFD Working Group – responsible for ensuring the implementation and embedding of the recommendations of the TCFD and delivery of locally agreed climate-related action.

During 2022, we evolved our governance framework to drive greater empowerment, efficiency and agility across the business. This resulted in simplifying our management committee structure which provide a means for our executive decision makers, SMFs and controlled function role holders to gain the information they need and opportunity to challenge options for action before signing off important decisions on behalf of the Group.

As a result, the Enterprise Sustainability Committee was established to provide oversight of the implementation and achievement of the Phoenix Group's sustainability and climate strategies, driving forward the Group's agenda covering the breadth of those strategies and related initiatives.

The TCFD Steering Committee (which was operational until March 2022 when the TCFD Implementation Programme concluded) and TCFD working group mentioned above now form part of our on-going local governance forums.

These groups do not have delegated decision making authority from the Board or its Committees. They operate to ensure the day-to-day embedding of climate-related activities across the business, aligned with the Group sustainability strategy.

During the year, the Board approved the Group's 2022 Sustainability Strategy, including key climate-related targets. The Board considered climate change on seven occasions (including education sessions and updates on TCFD implementation and the Net Zero Transition Plan). At each meeting the Chair of the Board Sustainability Committee provides a verbal report on the considerations of the Committee.

A positive effectiveness review of the Board Sustainability Committee was completed and enhancements were made to the Group's remuneration framework by integrating climate-related targets within the Executive Directors' Strategic Scorecard. Further enhancements are expected for 2023 targets and these will be disclosed in the Director's Remuneration Report for 2023. Phoenix has continued to upskill the Board, Executive and the wider Group through tailored education sessions on sustainability and climate change and in 2022, sessions were held to deepen understanding of decarbonisation targets as part of the SBTi process and developments in the energy market.

Looking ahead
Ongoing enhancement of the governance framework and embedding of climate with decision making across the Group will continue, ensuring our governance is future fit, in addition to a continued focus on education and developing expertise. There will be further support of the 2023 sustainability targets and priorities including approval of the Net Zero Transition Plan and oversight of the Group's nature approach and strategy development and implementation

Strategy
We have identified climate change risks and opportunities as those derived from: transition risks (arising from exposure to the transition to a net zero economy through policy, legal, market, technology changes and reputational impacts); and physical risks (arising from the acute and chronic impacts of changing climate on the short and long term). For Phoenix, we have identified four areas of climate risk/ opportunity considered most material: our investment portfolio; the changing demand for products, funds and solutions given evolving customer needs; emerging government policy, regulatory and legal changes; and reputational damage if climate risks not appropriately managed. Further details of the risks identified and their potential impacts on Phoenix are included in the Risk and Strategy sections of the Climate Report.

In developing our strategy, we have considered the risks/opportunities across three time horizons: short-term (0–1 year), medium-term (1–5 years) and long-term (over 5 years). To deliver our 2050 net zero ambition, we have set three key priorities in response to climate response to climate change to consider both risks and opportunities. This has been used to guide our financial planning and decision making in 2022.

Invest
Invest for the future by decarbonising our investment portfolio and applying our exclusions policy, being an effective steward of our assets by supporting investee companies' action towards transitioning to net zero; and investing in climate solutions. We are focused on managing the financial risks from climate change for our policyholders and providing savings and insurance products that can enable our policyholders to direct finance to help accelerate the transition to a low carbon economy.

Engage
Engage to multiply our impact by working collaboratively with partners to deliver cross-sector change and thought leadership; and engaging with our customers and employees on the role they can play in delivering net zero. This priority in particular helps mitigate our reputational risk as we take a positive public stance on climate change and continue to work collaboratively with peers and industry bodies.

Lead
Lead by example by decarbonising our operations through energy efficiency, technology and financial planning through the delivery of specific projects; and cutting emissions from our supply chain, by requiring that all suppliers have a carbon reduction target and that our key suppliers have a SBTi committed target and procure renewable energy.

These are anchored by the strength of our people capabilities in investment, risk management, scenario analysis and governance and the ongoing investment in our climate data and technology platforms.

In particular, for regulatory risk, our Group Risk Management Framework ('RMF') ensures appropriate monitoring within existing regulatory horizon scanning frameworks and metrics are updated as required for adjustments to risk appetite and tolerances.

Climate Report – prepared in line with Recommendations and Recommended Disclosures of the Taskforce on Climate-Related Financial Disclosures ('TCFD')

Phoenix fully supports the recommendations of the TCFD and transparent climate reporting to allow all stakeholders to better understand the impact of climate-related risks and opportunities and how these are measured and managed.

In 2022, we have made further progress in embedding the recommendations of the taskforce. Given our progress and the increasing need for transparent climate reporting, we have opted to publish a standalone Climate Report which is available on our Group website.

We have therefore included a summary in this Annual Report of how we have complied with all of the recommendations of the TCFD framework, the progress we have made during 2022 and the key priorities for the future. For any recommendations where we have further detail in other sections of the Annual Report or the Climate Report, we have included the required cross references.

Scan the code to find out more in our Climate Report →

Task Force on Climate-Related Financial Disclosures continued

During the year we commenced a quantitative climate scenario exercise to further develop our methodology and modelling capabilities and assess the resilience of our climate strategy. We have used five climate scenarios to model the potential impact of a range of possible future climate pathways and help inform actions needed to reduce the impact of climate change risks on our investment portfolio (considered the most material risk area for the Group). Details of these impacts are included within the Climate Report.

Our analysis indicates there is a need to transition our investment portfolio to align to a net zero position at a suitable pace. This action will be delivered through our Net Zero Transition Plan and will help mitigate the Group exposure to transition risk in particular. It will also position the Group to better exploit the new investment opportunities that will arise in a net zero world.

Looking ahead
We will be rolling out our decarbonisation strategy, increasing stewardship activity and investing in sustainable opportunities; in addition to working with industry and Government to advocate for sustainable policy and regulation.

We will further develop our internal scenario analysis process, addressing known limitations and reflecting evolving market best practice. This will include enhancing our analysis of physical risk.

Risk management
Climate change was identified as an emerging risk in 2018 and sustainability risk, of which climate risk is a sub-category, has been classified as a principal risk by the Board since 2019 to recognise the potential adverse impacts it can have on our business.

Climate change is considered cross-cutting as it impacts all categories of our Risk Universe and our approach to climate risk (including how it is identified, managed, monitored and reported on) is integrated into the overall Group RMF.

Further details of climate as a principal risk, its impact and our mitigating actions are included within the Risk Management Report on page 52.

In 2022, we have further developed our internal climate risk reporting, reflecting the evolution of market best practice and tracking the progress made in terms of the Group's interim net zero targets for both internal operations and the investment portfolio. We have continued to review and enhance the RMF as further information is developed, including through scenario analysis work and have enhanced the data strategy and model for collecting and reporting on climate risk.

Looking ahead
We aim to enhance the data strategy and model for collecting and reporting on climate change risk and further develop our internal physical risk reporting. Ongoing review and enhancement of the RMF will continue as further information is developed, including through scenario analysis work.

Metrics and targets
In 2022, we expanded our Scope 3 financed emission baseline to include sovereign debt and real estate assets. For the investment portfolio, we measured the absolute emissions and emissions intensity for our listed equity, listed credit, sovereign debt and real estate assets, the percentage of this portfolio exposed to high-carbon risk sectors and the fossil fuel industry; and the percentage of this portfolio aligned with science-based targets.

Using this expanded baseline Scope 3 investment portfolio absolute emissions decreased from 24 million tons of carbon dioxide equivalent ('tCO_2e') in 2019 to 21 $mtCO_2e$ in 2021. The revenue emissions intensity for listed equity and credit assets decreased from 158 tCO_2e per $1 million revenue in 2019 to 139 tCO_2e per $1 million revenue in 2021.

The four high transition risk sectors (energy, utilities, materials and industrials) only account for 20% of the listed portfolio AUM, however they account for 71% of all listed portfolio emissions. As at year end 2021, almost half of the listed portfolio was invested in counterparties that had committed to set or already set approved science-based targets.

Our operational carbon footprint is detailed in the SECR report on pages 46 to 47.

We have worked with our partners Carbon Intelligence to set an indicative 2019 baseline for our supply chain of circa 0.2 million tCO_2e. We calculated our indicative 2019 baseline using a hybrid methodology, which involved a combination of extended input-output ('EEIO') analysis, where an industry average emissions factor is applied per pound spend. This was supplemented with ('CDP') data inputs from suppliers where available. Based on our estimated emissions footprint work to date using available data, we have identified that our supply chain emissions seem to be heavily concentrated in the top 10 suppliers, with the top 100 suppliers likely accounting for approximately 95% of our Purchased Goods and Services emissions.

Phoenix has set a number of targets to align to the goals of the Paris agreement. We have committed to reach net zero across our Group by 2050 and we are committed to reach net zero in our direct operations (Scope 1 , 2 and selected Scope 3 business travel) by 2025.

For our supply chain, we have set a 50% emissions intensity reduction target by 2030 and a net zero target by 2050. For our investment portfolio, we are targeting:

- A 25% reduction in the carbon emission intensity of our listed equity and credit assets where we exercise influence and control by 2025.
- A 50% reduction in the carbon emission intensity of all assets where we exercise influence and control by 2030 to be net zero by 2050.

In 2022 we submitted our internal decarbonisation targets (which support the delivery of our external interim decarbonisation targets) to the Science Based Targets Initiaitve ('SBTi') for validation.

Looking ahead
We will review our decarbonisation performance against a net-zero glide path for 2023 and aim to expand our Scope 3 finance emissions baseline to include illiquid credit assets in 2023. As data quality improves, we want to broaden the scope to consider the Scope 3 emissions of investee companies.

We will further develop operational and investment metrics with a focus on physical risk. We will continue to help set and track their carbon reduction targets. We will be publishing our Net Zero Transition Plan in 2023.

Timeline of climate action

2020

- Supported TCFD framework
- First TCFD disclosure published
- Established a TCFD Implementation Programme
- Establishment of Responsible Investment Philosophy
- Committed to be a net zero business by 2050
- Committed to becoming operationally net zero by 2025
- Signatory to the Principles of Responsible Investment

2021

- Achieved 34% reduction in operational emissions intensity from 2020
- Became member of Net Zero Asset Owners Alliance
- First life insurer to sign up to UK Partnership for Carbon Accounting Financials
- Published open letter to financial partners, including asset management partners.
- First insurer to publish open letter on ESG to 1,500 suppliers
- Published Investments exclusion policy
- Set 2025 and 2030 investments decarbonisation targets
- Completed Bank of England's Climate Biennial Exploratory Scenario ('CBES') exercise
- Strategic partner for Green Horizon Summit at United Nations Climate Change Conference
- 'B' Carbon Disclosure Project ('CDP') grade awarded

2022

- Published first standalone Climate report
- Completed Round II of CBES exercise
- Rolled out decarbonisation investment strategy and increased stewardship activity
- Transferred c.1.5 million customers and c. £15 billion of assets into our sustainable multi-asset default solution
- Invested £483 million in illiquid assets with positive environmental impact
- £338 million multi-asset climate solutions mandate to deploy policyholder assets
- 80% reduction in operational carbon emissions intensity (per FTE against 2019)
- 82% of suppliers committed to either a SBTi or Race to Zero target
- Developed SBTi targets for validation
- A- CDP grade awarded

2023
And beyond

- Develop and publish Net Zero Transition Plan capturing investments, operations and supply chain
- Aim to meet all interim net zero targets across investments, operations and supply chain
- Net Zero Group by 2050

Our risk management framework

The Group's Risk Management Framework ('RMF') seeks to ensure that all material risks are identified, assessed, controlled, monitored and managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The RMF is an enabler to delivering the Group's risk strategy; to take rewarded risks that are understood, managed effectively and consistent with its purpose and enterprise strategy.

The RMF is aligned to the principles of the International Organisation of Standardisations' ('ISO') risk management guidelines, ISO 31000.

The nine components of the RMF are outlined in the diagram below, with further information in the sections below.

Risk environment
The overall risk environment remains uncertain and is dominated by ongoing inflationary pressures, with implications for economic stability and the welfare of the Group's customers and colleagues. The cost of living crisis and sustained high inflation are impacting the lives of the Group's customers, particularly those that are most vulnerable. Increased taxes and reduced public spending announced in the Autumn Budget are likely to exacerbate these impacts. The Group remains focused on finding ways to support its customers and has also introduced a number of initiatives to support colleagues. Central Banks face a challenging balancing act to control inflation whilst managing the risk of global recession. The Group's Stress and Scenario Testing programme continues to consider a range of adverse circumstances to help it determine any actions needed to respond to economic pressures.

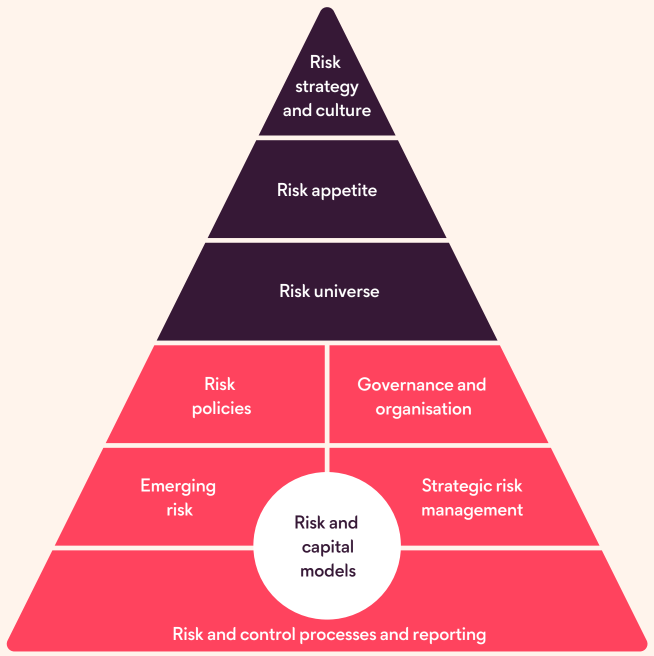
Geopolitical risk remains prominent, including the effects arising from the ongoing conflict in Ukraine and post-Brexit factors. The Group continues to monitor developments across the political environment.

The regulatory change agenda continues to have potentially significant implications for the Group achieving its strategic priorities. The Group is supportive of the Solvency II Reforms, but requires detail on the final rules to determine the implications for its strategic asset allocation. Progressing key tasks on the implementation plan for the FCA's new Consumer Duty is another area of primary focus in order to demonstrate the Group's priority of helping customers achieve a life of possibilities.

The Group is working to implement the requirements of International Financial Reporting Standard 17 ('IFRS 17'). Whilst plans are in place to deliver the required disclosures in the interim accounts, there remain significant delivery risks given the complexity of the business. The Group recognises that should it not deliver IFRS 17 reporting for the interim accounts, certain reputational, regulatory and other market consequences would arise that could be material. Management has considered the risks to executing the plans and identified actions that could be taken should these risks materialise.

The Group also maintains a significant self-initiated change agenda in order to deliver on its strategic priorities. In 2022 a number of enhancements were made to the Group's Change Management Framework including to the prioritisation and scheduling of change, and strengthened controls around change delivery.

Risk Management Framework



The Group retains focus on delivering on its strategic operating model. In 2022 this included migration of a further 530,000 customer policies to Tata Consultancy Services ('TCS') Diligenta, the transfer of custody and fund accounting services for £90 billion of assets to HSBC and progress towards the simplified operating model with abrdn plc. The Group places significant focus on the operation of these partnerships, including the operational resilience of each, in order to protect the efficient operation of the business and delivery of service to its customers.

Own risk and solvency assessment ('ORSA')
The ORSA plays an important role in supporting strategic decision-making and strategy development at the Group's Boards and risk committees. It provides:

- a linkage between strategy, risk, capital and stress testing, as well as the effectiveness of management actions required to meet strategic objectives;
- processes to identify, assess, control and monitor risks that the Group faces;
- an understanding of current and potential risks to the business, including financial and non-financial risks under base and stressed scenarios;
- the Group's agreed appetite to accept these risks and how it manages them; and
- a forward-looking internal assessment of the Group's solvency position in respect of its current risk profile and how it is likely to change with the proposed business plans, strategy, or changes in the external environment.

ORSA processes are run regularly throughout the year and operate within the Group's ORSA cycle outlined below. The Group's ORSA cycle brings together inter-linked risk management, capital and strategic processes.

Risk strategy and culture
Risk strategy
The Group's risk strategy is to take rewarded risks that are understood, managed effectively and consistent with its purpose and enterprise strategy.

The Group's risk strategy supports a more stable, well-managed business with improved customer, shareholder, colleague and societal outcomes in line with the Phoenix strategy.

The Group achieves its overall purpose and enterprise strategy goals not by avoiding risks, but through the identification and management of an acceptable level of risk (the Group's 'risk appetite') which ensures that it is appropriately rewarded for the risks that are taken. To help bring focus to the risks that it seeks to mitigate, the Group has categorised its risk universe into 'Fundamental', 'Consequential – Active' or 'Consequential – Passive'.

ORSA process cycle

Risk culture
Risk culture is the sum of the Group's shared values, behaviours and attitudes towards the risks faced by its customers, shareholders, colleagues and society. The Group's risk culture reflects the way its colleagues think and act, both individually and collectively. The Group's 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. The Group regularly assesses itself against its risk culture vision, doing this through a comprehensive dashboard with a suite of measures on people, governance, customers and leadership.

The Group utilises qualitative observations and structured monthly surveys as a rich quantitative data source to monitor colleague engagement, health and well-being, as well as providing a safe platform to allow colleagues to proactively identify and report upon potential cultural risks. To help provide the Group with a more comprehensive view of culture, a colleague risk culture self-assessment mechanism is currently being tested, which aims to improve the Group's insight and capability to better understand risk culture strengths and development areas. The Group is working hard to ensure that a psychologically safe environment exists within Phoenix, where colleagues are empowered to share different viewpoints and have an ability to speak up freely. The Group's Board of Directors reinforces its culture and values through their conduct (individually and collectively), decisions and strategic oversight.

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 its strategic objectives. The Group's risk appetite statements establish the risk boundaries within which it is prepared to operate, set the tolerance for delivery against Group objectives, and are a key tool in balancing the interests of different stakeholders. The following risk appetite statements are adopted by the Group:

Risk management continued

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 managed, and deliver added value. The Group will take action to deliver shareholder value in line with the Group's strategy and financial targets.

Control – The Group, including all legal entities, will protect the interests of its customers, colleagues, shareholders and other stakeholders by operating a robust control environment that meets the requirements of the approved controls objectives for all risks within the Phoenix Risk Universe.

Conduct – The Group maintains the highest conduct standards which are in line with customer, market and regulatory expectations. The standards the Group is expected to achieve are included in the Group Code of Conduct. Any deliberate or negligent actions leading to unfair customer outcomes, poor market conduct, reputational damage or regulatory censures are not acceptable. If unfair outcomes should arise, the Group will address them in a fair and prompt manner.

Sustainability – The Group is committed to being a leader on sustainability to help deliver its purpose and to protect the long-term financial interests of its customers, colleagues and shareholders. To manage the risks in the delivery of its sustainability strategy, the Group will monitor and take action to achieve its targets and invest in a sustainable future, engage people in better financial futures and build a leading responsible business.

Risk universe
A key element of effective risk management is ensuring the business understands the risks it faces. The Group's Risk Universe summarises the comprehensive set of risks to which the Group is exposed. The Risk Universe allows the Group to deploy a common language, allowing for meaningful comparison to be made across the business. The risk profile of each is an assessment of the impact and likelihood of those risks crystallising and the Group failing to achieve its strategic objectives. Changes in the risk profile are influenced by the commercial, economic and non-economic environment and are identified, assessed, managed, monitored and reported through the Group's RMF processes. The Risk Universe presents the complete set of risks across the Group in increasing levels of granularity, i.e. Level 1 risks are the high level risk categories, Level 2 risks are the components of these categories and, in some instances, Level 3 risks are included, where considered necessary, as sub-components. 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 purpose and enterprise strategy by establishing the operating principles and expectations for managing the key risks to the Group's business day-to-day. Each of the risk policies defines:

- 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; and
- the Control Objectives that determine the Key Controls required to manage each risk to an acceptable level.

Risk policies are mapped to either Level 1 or 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 Board approved adverse scenarios.

Quantitative and qualitative appetite limits are chosen which specify the acceptable likelihood for breaching the agreed appetite statements (for example less than x% chance of a breach in regulatory capital) and assessment against 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.

A Group Conduct Strategy and Climate Change Risk Management Framework overarch all risk policies to provide a holistic view of conduct and climate change risk. This provides a consistent and comprehensive approach in the application of the RMF to manage these risks across the Group.

Governance and organisation
The RMF delivers 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, the 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; its 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 its output to the Group Board Audit Committee. The governance framework in operation throughout the Group can be found in the chart below.

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. Emerging Risks draw upon potential internal and external change drivers to the organisation, and often stem from changes in economic, environmental, societal, technological or political circumstances. Fewer details tend to be available for emerging risks meaning the likelihood and severity impacts must be estimated. Emerging risks or opportunities can take longer to crystallise, but in many cases immediate action is required to pre-emptively mitigate risks or fully maximise opportunities.

Whilst any estimates have an element of subjectivity, they are validated during Management Board and Board Risk Committee discussions. These conversations help drive out a comprehensive understanding of potential new risks and opportunities to which the organisation is exposed, drawing on the collective expertise and experiences of subject matter experts. The Group routinely captures emerging risks and opportunities in a detailed log.

Strategic risk management
Strategic risks threaten the achievement of the Group's purpose and enterprise strategy. The Group recognises that core strategic activity brings with it exposure to strategic risk, however it seeks to proactively identify, manage and monitor these exposures. A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management and corporate activity and against the Life Companies' and Group's strategic ambitions.

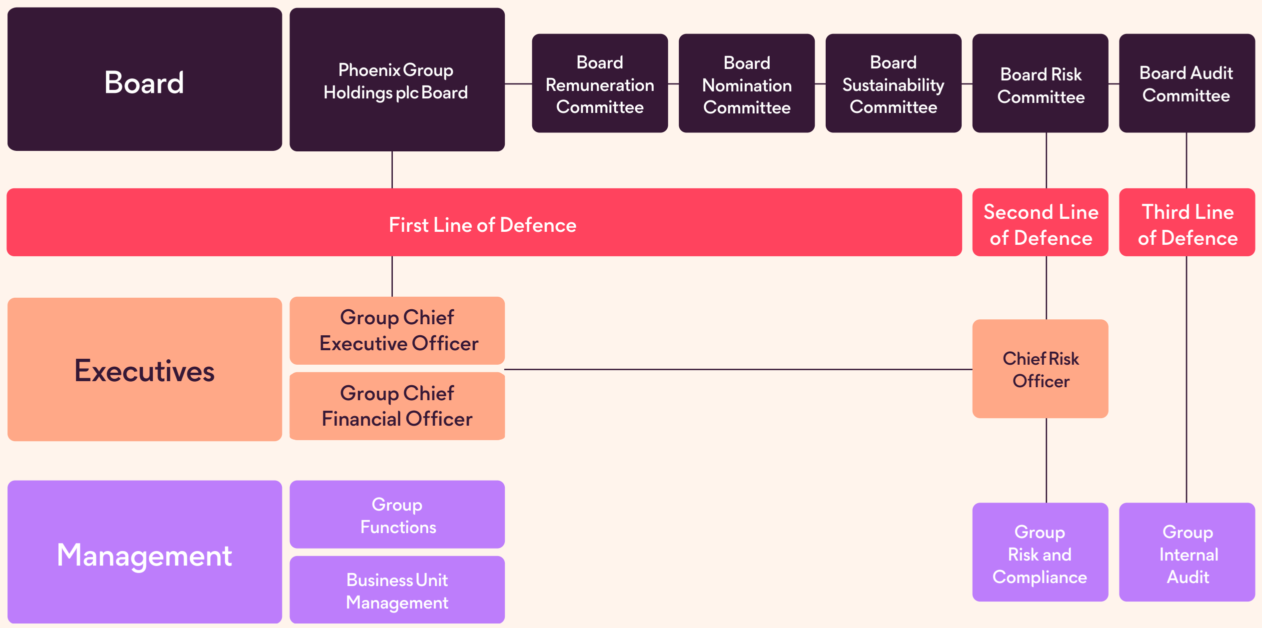
Risk and capital models
A continuous process is followed for identification and assessment of risk types and the corresponding resilience of the Group's capital position. The Group continually strives to enhance its internal risk and capital models and the related modelling must be sufficiently accurate to enable appropriate ranking and management of risks. It is a requirement that all material risks, and the interactions between them, are in scope of the Group's risk and capital models.

Under Solvency II, the development and production of any Internal Model output contributing to regulatory capital requirements must comply with validation standards, supported with documentation 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 the Group's objectives.

The Group's 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, measurement, management and reporting of risks, including learning lessons from incidents, is undertaken across the three lines of defence, and is reported through business and management governance to the relevant Boards and Committees.

Governance framework



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 2021 Annual Report and Accounts, published in March 2022.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Group, including risks that would threaten its business model, future performance, solvency or liquidity. The Board Risk Committee has carried out a robust assessment of principal risks and emerging risks. As a result of this review, the 13 risks noted in the Group's 2021 Annual Report and Accounts have been retained. The description of one risk has been refined to reflect the evolution of the Group's strategic priorities to focus on organic growth.

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.

Strategic priorities

1. Optimise our in-force business
2. Grow organically and through M&A
3. Enhance our operating model and culture

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Strategic risk				
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 business. The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that, without sufficient controls, could result in the Group failing to deliver the expected outcomes for customers or value for shareholders.	The Group continues to assess and execute new inorganic growth opportunities and applies a clear set of criteria to assessing these opportunities. The Group's acquisition strategy is supported by the Group's financial strength and flexibility, strong regulatory relationships and its track record of generating value and delivering good customer outcomes that are in line with expectations. 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's priority at all times is on delivering for its customers. Customer migrations are planned thoroughly with robust execution controls in place. Lessons learned from previous migrations are applied to future activity to continuously strengthen the Group's processes.	1 2 3	This risk was assessed as 'Heightened' in the Group's 2018 Annual Report and Accounts due to the transformational nature of the Standard Life acquisition. The assessment of the level of exposure to this risk is unchanged from the 2018 position due to the impact of ongoing acquisition and transition activity. The integration of ReAssure Ltd is continuing as planned, with the integration of key functions, such as Finance and Actuarial, progressing well. The Group continues to develop its partnership with TCS to support its strategic deliverables. The successful migration of around 400,000 Standard Life Assurance customer policies to the TCS BaNCS platform was completed in May 2022, with the migration of a further 130,000 Scottish Mutual customer policies completed in November 2022. Further customer migrations are planned through to 2026, which will support delivery of the Group's strategic objectives. On 7 February 2023 the Group announced that a further c. 3 million policies, currently administered on the Alpha platform, will be transitioned to the BaNCS platform by 2026. This will enable all Phoenix policies to benefit from TCS' significant ongoing investment in the platform. In August 2022 the Group announced the acquisition of Sun Life of Canada UK, a closed book UK life insurance company, from Sun Life Assurance Company of Canada for cash consideration of £248 million. This equates to an attractive price to shareholder Own Funds ratio of 83%, in line with the Board's disciplined approach to the deployment of shareholder capital. The acquisition is expected to complete in April 2023.
Strategic risk (continued)				
				Sun Life of Canada UK operates a predominantly outsourced business model with the majority of its policy administration already undertaken by the Group's strategic outsourcing partner (TCS Diligenta), which supports a simplified operational integration programme. The Sun Life of Canada UK acquisition is expected to deliver c. £500 million of incremental long-term cash generation, with 30% expected to emerge in the first three years.
The Group's strategic partnerships fail to deliver the expected benefits	Strategic partnerships are a core enabler for delivery of the Group's strategy; they allow it to meet the needs of its customers and clients and deliver value for its shareholders. The Group's end state operating model will leverage the strengths of its strategic partners whilst retaining in-house key skills which differentiate it from the market. However, there is a risk that the Group's strategic partnerships do not deliver the expected benefits leading to adverse impacts on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand. Some of the Group's key strategic partnerships include: abrdn plc: Provides investment management services to the Group including the development of investment solutions for customers. abrdn plc manages c. £145 billion of the Group's assets under administration, at February 2023. TCS: The Group's enlarged partnership with TCS is expected to support growth plans for the Retirement Solutions and Pensions and Savings businesses, enabling further market-leading digital and technology capabilities to be developed to support enhanced customer outcomes. HSBC: Provides custody and fund accounting services to the Group to manage c. £148 billion of its unit linked operations.	The Group has in place established engagement processes with abrdn plc to oversee and develop the strategic partnership. These processes reflect the simplified and extended strategic partnership between the Group and abrdn 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 the enlarged partnership. The Group has in place established processes to oversee services provided by HSBC in line with its Supplier Management Model. The Group takes steps to monitor its supplier concentration risks and has business continuity plans to deploy should there be a significant failure of a strategic partner.	1 2 3	The Group assessed this risk as 'Heightened' in the 2019 Annual Report and Accounts due to the increased dependency it placed on its strategic partnerships, and then 'Improved' in 2020 due to strengthening controls around the operation of those partnerships. Whilst the Group has further strengthened and simplified its strategic partnerships since that time, its assessment of the level of risk exposure is unchanged from the 2020 position, reflecting the Group's ongoing reliance on its strategic partners to deliver the volume of change needed to advance the Group's strategic objectives. The Group continues to develop its partnership with TCS to support its strategic deliverables. The successful migration of around 400,000 Standard Life Assurance customer policies to the TCS BaNCS platform was completed in May 2022, with the migration of a further 130,000 Scottish Mutual customer policies completed in November 2022. Planning for further migrations in 2023 and beyond is underway, including the further c. 3 million policies to be transferred from the Group's Alpha administration platform as the Group progresses towards BaNCS being the sole administration platform for all customer policies. During 2022 the Group successfully transferred the custody and fund accounting services for £90 billion of assets to HSBC. This is a key milestone in the Group's journey towards implementing harmonised investment administration processes, and boosts its strategic partnership with HSBC. The simplified and extended partnership with abrdn plc continues to advance towards the Target Operating Model with significant progress towards the transfer of Wrap platform products expected in 2023 ahead of the transfer occurring in subsequent years.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Strategic risk (continued)				
The Group fails to deliver long-term organic growth	The Group aims to deliver sustainable cash generation by achieving organic growth in excess of the run-off from its in-force business. Confidence in the Group might be diminished if it fails to deliver organic growth in line with targets shared, 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 Business Unit structure brings renewed focus and accountability. The key areas of growth are Pensions & Savings and Retirement Solutions. Each Business Unit holds an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape and the Group's overall purpose and objectives. The Group's Annual Operating Plan commits it to making significant investment in its Pensions & Savings and Retirement Solutions businesses, which will include propositions that are driven by customer insight. The Group is established in the Bulk Purchase Annuities ('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 its rigorous Capital Allocation Framework.	2 3	**Improving** For the second consecutive year the Group has delivered sustainable organic growth which more than offset the run-off of in-force business. At its Capital Markets Event the Group set its first incremental new business long-term cash generation target as a result of the significant progress made by both Pensions & Savings and Retirement Solutions. As a result of this development, the Group views this risk as 'Improving', which reflects both the demonstrated success of the strategy to pursue organic and inorganic growth, and the challenging nature of the target set. During 2022, the Group completed BPA transactions with a combined premium of £4.8 billion. This continues to demonstrate that the Group has the ability to compete and win in the BPA market. The Pensions and Savings Business, operating under the Standard Life brand, has developed its operating model to centre around three Trading Channels: Workplace, Retail Intermediated and Retail Direct. In Workplace, the Group continues to make progress in the market, launching new propositional features such as Workplace ISA. The Group continues to recruit to increase its capability in terms of proposition and distribution; 76 new scheme wins have been confirmed during 2022 (compared with 41 for 2021), and the Group is actively managing a number of enquiries. The operating model and organisational design are being developed and implemented for the Retail businesses, with the aim of maximising opportunities for growth, both directly with customers and through advisers. The Group is looking to expand the current offering of financial guidance and advice to support customers in better preparing for their retirement. The Pensions and Savings business has established, alongside the Workplace Business, a Retail Direct Function to mobilise this.
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 its strategic partners. This could result in the benefits of change not being realised by the Group in the time frame assumed in its business plans and may result in the Group being unable to deliver its strategic objectives. Poor change delivery could affect the Group's ability to operate its core processes in a controlled and timely manner.	The Group's Change Management Framework defines a clear set of prioritisation criteria and scheduling principles for new projects. This is to support the safe and controlled mobilisation of new change in line with capacity and risk appetite and to strengthen business readiness processes to deliver change safely into the operational environment. Information setting out the current and forecast levels of resource supply and demand continues to be provided to accountable senior management to enable informed decision-making to take place. This aims to ensure that all material risks to project delivery are appropriately identified, assessed, managed, monitored and reported.	1 2 3	There has been no change to the assessment of exposure to this risk, which reflects the potential impact of failing to deliver the Group's significant strategic and regulatory change agenda, since its introduction in the 2020 Annual Report and Accounts. The Group strengthened its Change Management Framework during 2022, and expects to see an improving trend in this risk as those enhancements are seen in project delivery. In September 2022 the Group appointed Jackie Noakes as Group Chief Transformation Officer and, subsequently, as Group Chief Operating Officer. Jackie will drive further enhancements to evolve and mature the Group's change operating model that are planned in 2023. These should also have a positive impact on this risk. However, exposure remains until this work is complete.

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Strategic risk (continued)				
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to the risk of failing to respond to Environmental, Social and Governance ('ESG') risks and delivering on its social purpose; for example, failing to meet its sustainability commitments. A failure to deliver could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness, reputational risks and litigation. The Group is exposed to market risk and credit risk related to climate change as a result of the potential implications of a transition to a low carbon economy. A failure to manage these risks could result in a loss in the value of policyholder and shareholder assets. In addition, there are long-term market, credit, 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).	Sustainability risk and Climate risk are both embedded into the Group's RMF. Its approach to climate risk management is in line with the requirements of the PRA Supervisory Statement 3/19 ('SS3/19'). The Group publishes an annual Sustainability Report and an annual Climate Report, the latter of which is prepared in line with the Task Force on Climate-related Financial Disclosures ('TCFD') guidance. A Sustainability Risk Policy is in place and updated annually. Consideration of material climate-related risks is embedded across the Group's risk policies, with regular reporting undertaken to ensure ongoing visibility of its exposure to these risks. The Group undertakes annual climate-related stress and scenario testing and continues to build its climate scenario modelling capabilities. The Group continues to evolve its sustainability strategy in response to the changing needs of stakeholders and sets targets to monitor progress towards its sustainability commitments. Further details are available in the Sustainability Report. The Group continues to actively engage with regulators, suppliers and asset managers on progress with all climate change and sustainability-related deliverables.	1 2 3	There has been no change to the assessment of the overall level of this risk since its introduction in the 2019 Annual Report and Accounts. While significant progress is being made to deliver against the Group's Net-Zero targets and social purpose, the assessment is driven by the Group's recognition that significant work, over a number of years, is required to deliver on these targets. The Group is committed to a 50% reduction in the carbon economic emissions intensity of all assets within its investment portfolio over which it has control and influence by 2030. The Group is also committed to a 25% reduction in the carbon economic emissions intensity of all listed equity and credit investments over which it has control and influence by 2025. The Group has been working with its key partners and suppliers to encourage them to adopt Science Based Targets initiative carbon reduction targets. A Net-Zero Transition Plan, which reflects potential future management actions and forward-looking investee company emission objectives, is in development. The Group is in the process of piloting the Task Force on Nature-related Financial Disclosures guidance ahead of the launch of the framework in 2023. The TCFD disclosures in the Group's Climate Report provide an overview of how it is compliant with SS3/19 and its planned future priorities across each of the TCFD focus areas.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Customer risk				
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 harm. 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 customers may result in the Group's failure to deliver its 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's Conduct Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where 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 the Control Objectives that determine the Key Controls required to mitigate them. The Group maintains 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.	1 2	Since the introduction of this risk in the 2018 Annual Report and Accounts there has been no change to the assessment of the overall level of this risk, reflecting ongoing improvements and challenges. In 2022, the Group continued to make significant investments in its propositions, and completed embedding a range of responsibly invested, sustainable multi asset funds for Standard Life's 1.5 million workplace pension scheme members, with assets of circa £15 billion now invested in sustainable solutions on their behalf. The programme to introduce sustainable investment strategies that are designed to help employers and trustees meet their member and regulatory needs, and pension customers to achieve good outcomes, was completed two months earlier than the end-of-year timeline previously announced in January 2022. The Group is preparing for the introduction of the FCA's Consumer Duty requirements which set higher and clearer standards of consumer protection across financial services and require firms to prioritise their customers' needs. The Consumer Duty initial implementation plan was agreed by the Group. The Group is monitoring the impacts of the cost of living crisis on its customers, using customer behaviour research and analysis, to ensure that it provides them with the support and help that they need during this period of economic uncertainty. The Group continues to provide support to customers both when paying out on their protection plans and when making decisions about their life savings. Proactive action to support customers, including those most vulnerable, is a priority.

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Operational risk				
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 provision of important business services when faced with a major operational disruption. This could occur either in-house or within the Group's primary and downstream outsourcers and be triggered by a range of environmental and climatic factors such as the cost of living crisis and adverse weather phenomena. The Group regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. In doing so, it faces the risk of interruption to its customer services, which may result in the failure to deliver expected customer outcomes. Regulatory requirements for operational resilience, and a timetable to achieve full compliance, were published in March 2021. Whilst the specific requirement to work within set impact tolerances takes effect in March 2025, the Group is already exposed to regulatory censure in the event of operational disruption should the regulator determines that the cause was a breach of existing regulation.	The Group's Operational Resilience Framework enhances the protection of customers and stakeholders, preventing intolerable harm, and supports compliance with the regulations. The Group works closely with its outsourcers to ensure that the level of resilience delivered is aligned to the Group's impact tolerances. The Group and its outsourcers have well established business continuity management and disaster recovery frameworks that are subject to an annual refresh and regular testing. For example, extensive testing of the power capabilities of the Group and its critical suppliers has shown they are resilient to power cuts from the National Grid. The Group continues to actively manage operational capacity and monitor service continuity required to deliver its strategy, including transition activities. Rigorous planning and stress testing is in place to identify and develop pre-emptive management strategies should services be impacted as a result of customer migrations. The Group and its outsourcers have a flexible working model in place. This significantly reduces exposure to intolerable disruption for its customers.	1 2 3	This risk was assessed as 'Heightened' in the Group's 2020 Annual Report and Accounts due to COVID-19 uncertainty and strategic customer transformation activity. These factors remain the key drivers of the current assessment of the level of exposure to this risk, which is unchanged since the 2020 position. Whilst uncertainty regarding further COVID-19 related implications for the Group's operational resilience has continued to reduce, the Group has a significant change and customer migration agenda, effective completion of which is required to deliver planned strengthening of its operational resilience both internally and with some outsourced service providers. The Group has a programme of work to strengthen operational resilience ahead of the next key regulatory deadline of March 2025. Where this is dependent upon customer migration to an alternative administration platform, the risk of late delivery is actively managed by both the relevant change programme and separate operational resilience remediation governance and reporting. As noted in the Group's 2021 Annual Report and Accounts, whilst many potential exposures to COVID-19 can now be effectively mitigated, a large-scale loss of colleagues due to illness or incapacity, in the UK or globally, is more challenging to resolve in the short-term as there remains uncertainty around the efficacy of vaccines against future COVID-19 variants. The Group aims to deliver considerable customer transformation activity in 2023. Although the scale of change exposes the Group to significant risk, this is mitigated through strengthened Resilience and Change Management Frameworks. The Group has taken action through previous strategic transformation activity to reduce exposure to technological redundancy and key person dependency risk, increasing the resilience of its customer service.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Operational risk (continued)				
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 quality of customer outcomes, lead to regulatory sanction, impact financial performance or cause reputational damage. These could require changes to working practices and have an adverse impact on resources and financial performance. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which the Group operates.	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	**Heightened** This risk was assessed as 'Heightened' in the Group's 2021 Annual Report and Accounts due to the uncertainty around Solvency II Reforms and the FCA's proposed Consumer Duty. These, and the significant undertaking to achieve compliance with IFRS 17 in 2023, are the key drivers of the assessment of risk as further 'Heightened' from that position. The volatile political environment following the UK Government's 'mini-budget' has stabilised with the election of Rishi Sunak as Prime Minister, but remains 'heightened' due to the economic headwinds facing the new administration and the implications for the Group's customer base, including the cost of living, energy crisis and the potential increase in vulnerability. In November 2022, HM Treasury issued a consultation response that confirmed the UK Government's intended Solvency II reforms. The Group supports the PRA and HM Treasury's objectives to reform the regulations to better suit the UK market whilst maintaining the right safeguards for policyholders. These regulations are an important component of the changes needed to the wider UK investment landscape which will enable the Group to meet its ambition to invest more in the future. However, uncertainty remains over when the reforms will be implemented and the quantitative impacts will depend on the exact detail of the final legislation. The Group will therefore remain actively involved in industry lobbying on Solvency II. The FCA's proposed new Consumer Duty's objectives are to deliver a higher and more consistent level of consumer protection and for the industry to do more to foresee and prevent harm before it happens. In July 2022 the FCA published final rules and guidance, the impact of which the Group has assessed. As part of Phoenix's implementation plan, key priorities have been identified that must be addressed to ensure compliance with the Consumer Duty requirements within the relevant timescales. This plan has been approved by the Board and shared with the FCA. IFRS 17 aims to standardise insurance accounting across the industry. Compliance with IFRS 17 is a significant undertaking, and a complex programme of work to deliver the Group's 2023 interim accounts is ongoing and reliant on the successful completion of significant workstreams across the Group, resulting in a number of delivery risks. The Group recognises that, should it not deliver IFRS 17 reporting for the interim accounts, certain reputational, regulatory and other market consequences would arise that could be material. Management has considered the risks to executing the Group's delivery plans and identified actions that could be taken should these risks materialise. The Group expects to continue its finance transformation programme beyond delivery of the 2023 interim accounts to further streamline and automate IFRS 17 processes to support efficient financial reporting in the future. Following the UK's Supreme Court judgement in November 2022 not to allow the Scottish Government to call a referendum without consent from Westminster, and the decision of Nicola Sturgeon to resign as Scotland's First Minister and leader of the Scottish National Party, the Group continues to keep a watching brief on how this issue progresses. As it is not yet clear what impact the death of Her Majesty Queen Elizabeth II and the succession of His Majesty King Charles III will have on public sentiment to the Union, the risk remains under review in the Emerging Risk and Opportunities Framework.

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Operational risk (continued)				
The Group or its Supply Chain are not sufficiently cyber resilient	As the Group continues to grow in size and profile this could lead to increased interest from cyber criminals and a greater risk of cyber-attack which could have significant impact on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand. Based on external events and trends, the threat posed by a cyber-security breach remains high and the complexity of the Group's increasingly interconnected digital ecosystem exposes it to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise. Increased use of online functionality to meet customer preferences and flexible ways of working, including remote access to business systems, adds additional challenges to cyber resilience and could impact service provision and customer security.	The Group is continually strengthening its cyber security controls, attack detection and response processes, identifying weaknesses through ongoing assessment and review. The Information/Cyber Security Strategy includes a continuous Information Security and Cyber Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and external threat intelligence sources. The Group continues to consolidate its cyber security tools and capabilities. The 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. The Group continues to enhance and strengthen its outsourced service provider and third party oversight and assurance processes. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.	1 3	This risk was assessed as 'Heightened' in the Group's 2021 Annual Report and Accounts due to the conflict in Ukraine. This remains the key driver for the assessment of the exposure to this risk, which is unchanged from the 2021 position. The ongoing conflict in Ukraine has resulted in increased cyber threat levels and the increased likelihood of a cyber-attack from a State actor; this would most likely be against the UK's Critical National Infrastructure, particularly on supply chains and the wider Financial Services industry which the Group relies upon. The Group improved its Threat Intelligence capabilities in 2022 and monitors National Cyber Security Centre guidance and other threat intelligence sources on a daily basis. To date, the Group has not seen a material increase in cyber-attacks since the conflict started. The Group's cyber controls are designed and maintained to repel the full range of the cyber-attack scenarios; although the Group's main threat is considered to be Cyber Crime, from Individuals or Organised Crime Groups, the same controls are utilised to defend against a Nation-State level cyber-attack. Having strengthened and consolidated its cyber controls, including in areas such as Vulnerability and Patch Management, Detect and Respond and infrastructure scanning capabilities in the first half of 2022, the main improvement in the second half of the year was strengthening the Supply Chain Security Oversight and Assurance framework. New Cyber Bandings, Processes and Controls have been implemented and will continue to be embedded and matured in 2023. Following a Final Stage Assessment in late June 2022 and recommendation by the British Standards Institution, Phoenix Group now holds ISO 27001 Information Security Management Certification for its Workplace Pension and Benefits schemes.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Operational risk (continued)				
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. This risk is inherent in the Group's business model given the nature of acquisition activity and specialist skill sets. Potential areas of uncertainty include: the ongoing transition of ReAssure businesses into the Group, the expanded strategic partnership with TCS and the introduction of the flexible working model. Potential periods of uncertainty could result in a loss of critical corporate knowledge, unplanned departures of key individuals, or the failure to attract and retain individuals with the appropriate skills to help deliver the Group's strategy. This could ultimately impact the Group's operational capability, its customer relationships and financial performance.	The Group aims to attract and retain colleagues, building a sense of belonging by providing timely communications to colleagues that aim to provide clarity and support employee engagement for corporate activities, including details of key milestones to deliver against the Group's plans. In addition, the Group regularly benchmarks terms and conditions against the market and maintains dynamic succession plans for key individuals, ensuring successors bring appropriate diversity of thought, capability and experience. Every six months, the Group's CEO and HR Director meet with the Executive Committee to discuss talent, succession and diversity. Monthly colleague surveys help to improve engagement whilst promoting continuous listening and rapid identification of concerns and actions. The Group continues to actively manage operational capacity required to deliver its strategy with ongoing focus on senior bandwidth, attrition and sickness. Flexible working offers colleagues greater flexibility in their working practices. The Group looks to proactively respond to external social, economic and marketplace events that impact colleagues.	1 2 3	Whilst there have been strong engagement scores in colleague surveys during 2021 and 2022, there has been no change to the overall level of exposure to this risk since it was introduced in the 2018 Annual Report and Accounts. This is driven by acknowledgement of the significant amount of integration activity within the Group and uncertainty regarding the longer-term social and marketplace impacts of the pandemic and cost of living crisis on colleague attrition, sickness, motivation and engagement. Skills essential to the Group continue to be in high-demand in the wider marketplace and recruitment and retention still has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Group monitors this closely and continues to remain confident in the attractiveness of its colleague proposition. The Group continues to leverage apprenticeships to support workforce diversity and to fill key skills, creating bespoke graduate and early careers programmes for specialist technical areas. The Group continues to successfully operate a flexible working model, with strategic investments in technology and other resources maximising its effectiveness. The model focuses on empowerment by enabling leaders and colleagues to agree working arrangements that meet individual, team and business needs. The increased scale and presence of the Group, and success in multi-site and remote working, gives greater access to a larger talent pool to attract and retain in the future. In addition, the Group's Graduate Programmes helps to support the talent pipeline.

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
Market risk				
Adverse investment market movements or broader economic forces can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer investments or sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency, profitability 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. In particular, the Group's increase in exposure to residential property and private investments, as a result of its BPA investment strategy, is actively monitored. The Group continues to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements, such as equities, interest rates, inflation 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 closely monitors and manages its excess capital position and it regularly discusses market outlook with its asset managers.	1 2 3	This risk was assessed as 'Heightened' in the Group's 2019 Annual Report and Accounts, and then again in 2020 due to ongoing economic uncertainty, geopolitical tensions, the impacts of COVID-19 and uncertainty around interest rates. These remain the key drivers for the current assessment of exposure to this risk, which is unchanged from the 2020 position. The global macro-economic environment remains highly uncertain, as it did throughout 2022. The Ukraine conflict and rapid increase in inflation increased market volatility throughout 2022, with recession expected throughout Europe and possibly the wider world. The longer-term impacts of the conflict have affected the cost and availability of food and vital commodities such as oil and gas, driving inflationary pressures. Inflation is considered a material short to medium-term risk. Pressures continue and the UK Consumer Price Index hit 11.1% in October 2022, before retreating slightly to 10.1% in January 2023. The Bank of England base rate increased from 0.1% in December 2021 to 4% at the time of writing, with further rate rises expected during 2023. Higher interest rates, coupled with cost of living rises, are likely to suppress property prices over the coming year. The UK mini-budget added further pressure to yield rises, squeezing liquidity throughout the long-term savings sector. The tax increases and government spending cuts announced in the Chancellor's Autumn statement helped to stabilise markets but have the potential to worsen customer sentiment, which may deepen the expected recession in the UK and affect the ability of households to save. The Group continues to monitor and manage its market risk exposures, including to interest rates and inflation, and to markets affected by the conflict in Ukraine. The Group's strategy continues to involve hedging the major market risks and in 2022 the Group's Stress and Scenario Testing Programme continued to demonstrate the resilience of its balance sheet to market stresses. Contingency actions remain available to help manage the Group's capital and liquidity position in the event of unanticipated market movements such as those following the mini-budget. As noted in the 'Customer' risk above, work is underway across the Group to ensure customers are supported as the impacts of the cost of living crisis continue to crystallise.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
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 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 longevity swaps and 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 adverse demographic experience.	1 2	This risk was assessed as 'Heightened' in the Group's 2020 Annual Report and Accounts due to the uncertainty around future demographic experience as a result of COVID-19 impacts. The residual risks from COVID-19, in addition to the implications arising from the cost of living crisis, are key drivers of the assessment of the level of exposure to this risk, which is unchanged from the 2020 position. Demographic experience and the latest views on future trends continue to be considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has still been given little weight given its anomalous nature. The Group is actively monitoring customer behaviour as a result of the cost of living crisis; this includes the impact that any change in behaviour could have on demographic assumptions. As noted elsewhere in this section, work is underway to ensure support is provided to customers as the impacts from the cost of living crisis continue to materialise. The Group completed BPA transactions with a combined premium of £4.8 billion in 2022. Consistent with previous transactions, the Group continues to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.
Credit risk				
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 deterioration in the creditworthiness or default of investment, derivatives 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. This would negatively impact the Group's operations which may in turn have adverse effects on customer relationships and may lead to financial loss.	The Group regularly monitors its counterparty exposures and has specific limits in place relating to individual counterparties (with sub-limits for each credit risk exposure), sector concentration and geographies. The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified using a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Group regularly discusses market outlook with its asset managers in addition to the Line 2 Risk oversight provided. For mitigation of risks associated with stock-lending, additional protection is provided through collateral and indemnity insurance.	1 2 3	In the Group's 2020 Annual Report and Accounts, this risk was assessed as 'Heightened' as a result of the market volatility and wider economic and social impacts arising from COVID-19. The residual risks from COVID-19 are a driver of the current assessment of the level of exposure to this risk, which is unchanged from the 2020 position, in addition to ongoing geopolitical tensions and economic uncertainty. Over 2022 the Group continued to undertake actions to increase the overall credit quality of its portfolio and mitigate the impact on risk capital of future downgrades. Furthermore, the Group Credit Limit framework was updated to better manage counterparty failure risk. This positive progress, and the easing of the economic and social impacts of COVID-19, is balanced by risks arising from the Ukraine conflict and UK Government policy. Uncertainties over the global economic outlook and high inflation present an increased risk of downgrades and defaults. In addition, a UK sovereign downgrade, which is now more probable, would have a negative impact on UK-related assets including Gilts, Housing Associations and Local Authority Loans. The Group has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities. The Group continues to increase investment in illiquid credit assets as a result of BPA transactions. This is within appetite and in line with the Group's strategic asset allocation plans. The growth in illiquid assets will be met by growth in the overall Group credit portfolio.

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. Two examples of key risks and opportunities discussed by senior management and the Board during 2022 are:

Risk Title	Description	Risk universe category
ESG Litigation	The growth of ESG-related litigation is becoming a risk. Given the growing prominence of ESG on government, regulator and corporate agendas, it is increasingly important that all businesses understand and take steps to mitigate the risks of ESG-related litigation. ESG-related litigation covers a broad range of potential actions, including those that result from climate-related issues (such as claims of "Greenwashing"), where claimants see the potential to drive an increase in climate change mitigation activity, and those that are brought by diversity campaigners seeking to drive faster progress by corporations towards their stated commitments. These actions could result in legal penalties and reputational damage to the Group if the underlying risks are not mitigated. The Group has undertaken a risk assessment exercise to identify and collate all potential ESG-related litigation risks. SMEs are currently assessing these and will report back with recommendations on those risks that are either not mitigated, have a higher chance of occurring or a greater impact if they do occur. The Group views these risks as cross-cutting the risk universe, with strategic, financial, operational, reputational and customer implications.	Environmental
Ethical Data Driven Decisions	As computing power advances, the use of automated decision making (be that machine learning, Artificial Intelligence or complex decision trees) has increased throughout the industry, including the use of algorithms to help customers make decisions about their future. There is a risk that the data used to drive these decisions contains biases which are not identified or the implications not understood and that, as a result, there is artificial discrimination in the recommended outcomes. For Phoenix Group, this could manifest through customers failing to achieve good outcomes and expose the Group to reputational damage and the need to remediate for inappropriate decisions made following the use of such tools. There is also the risk of regulatory sanction, most notably from the Information Commissioner's Office but also from the FCA. The Group's priority in this area is in establishing the ethical guardrails and controls which are essential to setting both expectations and culture of how data is consumed and processed. The principles of the FCA's new Consumer Duty, and the Group's Code of Conduct, will be placed at the heart of the framework.	Strategic

Viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Board is required to conduct an assessment of the viability of the Group over a specified time horizon.

Assessment Process
In assessing the future viability of the Phoenix Group, the Board has defined 'viability' as maintaining the capability to satisfy mandatory liabilities and meet external targets for cash generation.

In doing so, the Board considered whether the definition of viability should reflect the success of the Group in delivering against its strategic priority to invest in the growth of the business on an organic and inorganic basis. It concluded that any such investment needs to comply with the Group's capital allocation framework and risk appetite, and that the Board retains flexibility to manage the level of investment to support the Group's strategic priorities. In the absence of new business growth, the Group maintains a significant cash generation capacity from its in-force business which remains resilient under stress, supporting longer-term viability.

The Board has determined that the three-year time horizon to December 2025 is an appropriate period for the assessment. The previous year's viability statement considered a five year time horizon but this has been amended to reflect the period covered by the Group's latest Board-approved Annual Operating Plan ('AOP'), and align to the period for which the Group establishes its internal and external targets.

In making its assessment and assessing the prospects of the Group over the short, medium and longer-term, the Board considered a large range of information including:

- The Group's strategic and operational plans as set out in the AOP, approved by the Board in January 2023;
- The latest financial results for the Group;
- Financial projections of the Group's capital, liquidity and funding positions over the viability assessment period. These projections have considered both base assumptions and severe but plausible stress scenarios, reflecting the major risks to which the Group is exposed;
- The results of wider stress and scenario testing activity, including reverse stress testing, capturing non-financial risks as well as more onerous scenarios with a low likelihood of occurrence;
- The operation of the Group's Risk Management Framework ('RMF'), including any breaches of risk appetite;
- The principal risks and uncertainties impacting the Group, together with an assessment of emerging risks that may impact on the Group's future performance;
- The Own Risk and Solvency Assessment ('ORSA') process which provides a forward-looking assessment of the Group's risk and capital profile as a result of its business strategy, AOP and the overall risk environment; and
- An assessment of the wider operating environment for the Group, including legal, regulatory, political, climate and competitive factors.

Assessment of Viability
The Phoenix Group AOP is reviewed and approved by the Board on an at least annual basis and results in a set of strategic priorities, detailed financial forecasts across multi-year periods, risk assessments and associated resilience, and available contingent actions. Those strategic priorities are outlined in the Strategic report of the Group's Annual Report and Accounts, and progress against the AOP is reviewed monthly by the Board.

The Board reviewed the results of stress testing to assess viability under severe but plausible scenarios, including three adverse stresses as follows, which are deemed to be representative of the key financial risks to the Group:

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. Recessionary economic stress – a more onerous combined market stress reflecting a deep recession driven by a further short-term increase in inflation and cost of living crisis, falls in equities, properties, increased credit spreads, a UK sovereign downgrade and credit asset downgrades; and
3. 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 calibration and assessment of the stresses is informed by the Group's Solvency II Internal Model. The projections take into account the impact of any appropriate Solvency II recalculation of transitional benefits and allow for refinancing of certain of the Group's debt obligations. In considering the projections, the Board has assessed the availability of contingent actions to increase resilience.

The scenarios were applied to the Solvency II capital, liquidity and funding positions of the Group, and demonstrated that the Group could continue to meet its mandatory obligations without any breach to regulatory capital requirements, whilst continuing to track towards meeting external targets.

Additional stress testing
In addition, through the ORSA and wider financial resilience processes, the Board has reviewed a wide range of stress and scenario testing which has provided additional insight with regard to the defined viability assessment period. The scope of this testing covers the Group's risk universe and includes scenarios such as:

- Additional severe downside economic scenarios with a low likelihood of occurrence;
- Operational disruption or failure of key third party service providers;
- Cyberattack, and resultant denial of service to key systems or applications;
- Failure to execute and deliver key change activities within the Group; and
- Climate-related risks, including those related to a disorderly climate transition.

In so doing, the Board has considered the results of reverse stress testing that has been performed to analyse scenarios that have a low probability but where, if they occurred, have the potential to render the business model unviable. Reverse stress testing validates and improves, where necessary, mitigating actions in place to deal with threats to the Group's viability by starting at the point of business failure and working backwards to identify the sequence of events that would lead to that outcome. It supports the development of actions that can be implemented now to avoid the failure.

During 2022, reverse stress testing considered the impact of severe market stress combined with a longevity stress. The analysis concluded that a significant increase in life expectancy (M65 +1.9yrs) combined with a downgrade of 1 credit quality step (1 letter) across the whole portfolio and a widespread market stress to replicate a severe recession (house prices falling 10%, equities c.30% and GBP depreciating c.10% vs USD) is required for Phoenix Group's capital coverage to reduce close to SCR in the absence of mitigating actions. Such a scenario is deemed extreme and in the event of such a scenario, contingency actions are available to restore coverage above risk appetites and would be initiated as the stress emerged.

The Board also approved an updated Group Recovery plan in January 2023. This plan includes a range of contingency actions and demonstrated how these could be used to recover from extreme market, longevity, liquidity and operational scenarios.

Over 2022, we have continued to embed Climate scenarios within the Group's stress and scenario testing programme and carried out a range of quantitative and qualitative scenario analysis. The results show that although how and when climate risk could crystallise continues to be highly uncertain, it could have a significant impact on the value of our assets, the assets of our customers, and our operations. Phoenix is actively managing this risk through taking action to appropriately decarbonise the investment portfolio, engage with key emitters within the portfolio, and ensure the portfolio remains well diversified.

Risk Assessment
The Board reviewed the Group's principal risks and uncertainties as set out on pages 56 to 67 of the 2022 Annual Report and Accounts, and considered the impacts of changes in the related impact assessments and the mitigating actions implemented. This included an assessment of the potential impacts of emerging risks on the Group's business during the viability assessment period.

As noted in the Risk Management section of the Annual Report and Accounts, the Group identifies, assesses and manages risk through the operation of its RMF. The Board approves the RMF and monitors its operation against established risk appetites through regular reporting that comes from across the three lines of defence.

Whilst noting continued macroeconomic uncertainty and an evolving political and regulatory landscape, the Board will continue to monitor risk exposures relative to risk appetites to ensure the risks are proactively managed and do not present a material threat to the Group's viability.

2022 Financial Results
The latest financial results for the Group as included within the 2022 Annual Report and Accounts have been considered as part of the assessment. Key factors included:

- The Group's strong capital position with a Solvency II surplus of £4.4 billion and a Shareholder Capital Coverage Ratio of 189%, providing significant headroom above regulatory minimum capital requirements and the Group's risk appetite;
- The resilience of the Group's capital position and cash generation to movements in market factors, as indicated in the sensitivity analysis included on page 35, which is reflective of the Group's hedging approach;
- Long-term free cash of £12.1 billion after deduction of debt interest to maturity, which provides a significant amount of dependable future cash generation to meet mandatory obligations and fund a sustainable dividend;
- Holding company cash of £503m at the end of 2022, as well as access to the Group's undrawn £1.25 billion unsecured revolving credit facility, provides assurance over the Group's ability to meet mandatory obligations as they fall due;
- The impact of losses on the IFRS basis and the implementation of the new insurance contract accounting standard, IFRS 17, were considered as part of the assessment. It was noted that the Group's hedging approach prioritises the protection of the Solvency II capital position and therefore the dependable delivery of future cash generation. It is accepted that this results in volatility in the IFRS metrics, but this was not considered to represent a material threat to the Group's viability.

Statement of Viability
Based on the factors outlined above, the output of the Group's financial projections and its resilience under severe but plausible stressed conditions, and the management of the Group's principal risks and associated mitigating actions, 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 three-year period of assessment.

Corporate governance

Chair's introduction to governance

Continued resilience in a dynamic environment

This report sets out our approach to governance, our key areas of focus during the year, our ways of working and how we, as your Board, remain effective as stewards of your company.

As I mentioned earlier, I am delighted to serve as Chair of the Board whilst Nicholas Lyons is on sabbatical.

During the year, Phoenix Group has delivered high levels of cash generation and maintained its resilient balance sheet despite the economic turbulence. The Group has also delivered both strong organic growth through our Standard Life branded businesses and inorganic growth with the announcement of our first ever cash funded acquisition of Sun Life of Canada UK. All of which has enabled the Board to recommend another year of strong dividend growth in 2022.

As I reflect on the strategic achievements, board succession activities and high quality nature of board discussion, I believe the Board has performed well with particular reference to the transition of roles amongst the Board. I am pleased that these changes have been well-managed and enabled the Board to operate effectively.

The Board schedule is planned a year in advance. Each meeting is balanced with governance, strategy, financial performance and emerging matters. The Board as a whole places great importance on promoting the success of the Company. Each member significantly contributes to board discussions and has sufficient time to devote to the Board and operation of its Committees. There are often points during the year when additional meeting time is required and I am pleased that each Director endeavours to be available as and when required.

The Board have also overseen the acquisition activities of the Sun Life of Canada UK transaction which is expected to complete in April 2023. The Board and its Committees played an important role in the decision making process of this transaction and I thank each of the Board members for being available to respond to emerging matters when required.

During the year, Wendy Mayall and Mike Tumilty (abrdn plc, shareholder nominated director) retired from the Board and Maggie Semple, Katie Murray and Stephanie Bruce (abrdn plc, shareholder nominated director) joined the Board. Their induction programme has been tailored to enable each of them to start their respective Board roles well prepared to contribute to the Phoenix strategy and wider initiatives. Each of these Board members brings additional capability, perspective and expertise to Board discussions and decision making processes.

Maggie Semple succeeded Karen Green as Designated Non-Executive Director for Workforce Engagement and I am delighted to report that this transition has been smooth with Maggie being able to interact with colleagues through the last quarter of the year. Karen Green succeeded me as Senior Independent Director on 1 September 2022 and Katie Murray succeeded me as Chair of the Audit Committee on 1 September 2022. Further information can be found in the Nomination Committee report on pages 88 to 91.

I am delighted that Mark Gregory has agreed to join the Phoenix Board, effective 1 April 2023. Mark possesses a wealth of experience in insurance, financial services and retail sectors, having worked as Group CFO at Legal & General Group plc and through non-executive roles, including Direct Line Insurance Group plc.

Kory Sorenson will have reached her ninth year of tenure on 30 June 2023. Kory has made a significant contribution during her time on the Board, in particular as Chair of the Remuneration Committee for the past 5 years. Nicholas Shott will succeed Kory as Chair of the Remuneration Committee with effect from the conclusion of the AGM on 4 May 2023, subject to shareholder and regulatory approval. Nicholas is an experienced chair and has a comprehensive grasp of the executive remuneration landscape having served on the Remuneration Committee for almost 7 years. Kory will remain a member of the Board until she retires on 30 June 2023.

The Nomination Committee has had a busy year characterised by a focus on Board progress on diversity (including gender and ethnicity), board succession and board evaluation. I am proud to serve as a Chair of a Board with 50% female board representation, 25% ethnicity board representation and a female Senior Independent Director. This year our board evaluation was conducted internally through completion of questionnaires and individual discussion for each director with myself, and concluded that the Board is cohesive, well-balanced and operates as a team and that the Board and its Committees operate and are chaired effectively with appropriate balance of material discussed at each meeting.

Board highlights 2022

Board induction
Katie Murray and Maggie Semple share their experiences of the Phoenix Board induction programme.
Read more on page 93 →

Board evaluation
An internal evaluation of the Board was carried out during the year. Following discussion, the Board have agreed several development areas.
Read more on page 91 →

Board composition and diversity
The composition of the Board is designed to ensure a mix of backgrounds, skills, knowledge and expertise to enhance decision-making.
Read more on pages 74 and 92 →

Engagement in action – listening to the colleague voice
Maggie Semple was appointed as the Designated Non-Executive Director for Workforce Engagement.
Read more on pages 108 to 109 →

Further information on the outcomes of the evaluation can be found on page 91.

Turning to the work of the Remuneration Committee, our new 3 year Remuneration Policy will be put to shareholders at our Annual General Meeting ('AGM') on 4 May 2023. The Remuneration Committee has carried out a review of our current Remuneration Policy ('Policy') and consulted with our top shareholders on proposed changes to the current Policy. The outcome of the consultation exercise demonstrated that there is strong support for the changes. Further information can be found in the Directors' Remuneration report on pages 110 to 146.

The Audit Committee continues to focus on the controls and systems which ensure delivery of reliable and consistent financial information and developments in reporting with a specific focus on IFRS 17 implementation during the year. In addition, we continue to monitor the developing outcomes of the Department for Business & Trade consultation on "Restoring trust in audit and corporate governance".

The Sustainability Committee has had a very active year in driving our ambitious ESG agenda. There has been a strong focus on education matters relating to sustainability, people, culture and climate- related topics during the year and this Committee plays an important role in shaping the Group's sustainability strategy, targets and initiatives.

Alastair Barbour
Chair

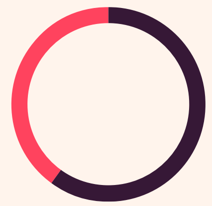
AGM votes in favour of all resolutions May 2022
97%
96% in 2021

FTSE100 ranking – FTSE Women Leaders (February 2023)
12th
13th in 2021

UK Corporate Governance Code
Fully compliant in 2022
Fully compliant in 2021

UK Corporate Governance Code
See page 77 for a summary of how the Company has complied with the UK Corporate Governance Code ('Code') during 2022 on pages 72 to 146.

Committee Chairs[1]



● Female 60%
Karen Green
Chair of the Sustainability Committee
Katie Murray
Chair of the Audit Committee
Kory Sorenson
Chair of the Remuneration Committee

● Male 40%
Alastair Barbour
Chair of the Nomination Committee
John Pollock
Chair of the Risk Committee

Board ethnic minority director representation[1]
25%

Board female director representation[1]
50%

1 As at 10 March 2023

Our Board of Directors

Leading from the top to drive robust governance and a clear social purpose.

At 10 March 2023, the Board comprises the Chair, Group Chief Executive Officer, the Group Chief Financial Officer, one abrdn-nominated Director, one MS&AD-nominated Director and seven independent Non-Executive Directors.

2022 Board changes

- Mike Tumilty retired from the Board on 30 June 2022
- Wendy Mayall retired from the Board on 31 December 2022

Committee membership key

Audit
Risk
Nomination
Sustainability
Remuneration
Chair

Alastair Barbour
Chair

Appointed 1 October 2013
Appointed as Chair, 1 September 2022
Committee:

Experience and role on the Board
"I have extensive experience in advising on accounting and financial reporting, corporate governance and management in the financial service sector with a primary focus on insurance and investment management. This in depth knowledge and understanding combined with my prior board roles having served as Senior Independent Director and Chair of the Audit Committee enables me to effectively lead as Chair of the Board and to perform the role of the Chair with clear responsibility for boardroom culture, leadership and stewardship."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; governance; auditing; capital markets; regulation; finance; asset management; risk management and FTSE 100 Board experience.
- Over 30 years of audit experience.

External appointments
Chairman of Liontrust Asset Management plc; Lead Independent Director of The Bank of N. T. Butterfield & Son Limited.

Andy Briggs, MBE
Group Chief Executive Officer

Appointed 10 February 2020

Experience and role on the Board
"As Group Chief Executive Officer ('CEO') of Phoenix, I am passionate about our core social purpose and believe that my experience in the insurance industry will help drive our achievement thereof. Prior to Phoenix, I was 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."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; capital markets; regulation; finance; life assurance; risk management; customer service and solutions; change; IT/digital; sales/distribution; marketing and operations.
- FTSE 100 Board experience.
- Over 30 years of experience in the insurance industry.

External appointments
Board member of the Association of British Insurers.

UK Government's Business Champion for Older Workers.

Rakesh Thakrar
Group Chief Financial Officer

Appointed 15 May 2020

Experience and role on the Board
"With over 25 years of my career at Phoenix, my experience has spanned a breadth of finance and strategy-related roles, as well as numerous acquisitions and integrations, enabling me to develop a deep understanding of both Phoenix and the wider insurance industry. I see my primary role as being to ensure Phoenix continues to deliver the dependable cash generation and resilient balance sheet that we are known for, while overseeing the disciplined capital allocation and investment into our growing Open business, the outcome of which will fund our sustainable shareholder dividend, which now has the opportunity for both organic and inorganic growth over time."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; capital markets; regulation; finance; life assurance; asset management; and risk management.
- FTSE 100 Board experience.
- Over 20 years' experience working in insurance.

External appointments
Non-Executive Director ('NED') and Chair of the Audit Committee of Bupa Insurance Services Limited and Bupa Insurance Limited.

Karen Green
Senior Independent Director

Chair of the Sustainability Committee

Appointed 1 July 2017
Committee:

Experience and role on the Board
"I have a broad experience base in financial services and insurance, encompassing 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. This enables me to contribute to the development of the Group's strategy. In addition, the experience I have gained from my various non-executive director, advisory and senior executive roles enables me to act as a strong support and sounding board for the Chair and the Board as a whole."

Skills, competencies and contribution to the Board
- Core skills and expertise in the areas of mergers and acquisitions; strategy and corporate development; finance and risk management and FTSE 100 Board experience.
- Over 30 years of experience in financial services and insurance.

External appointments
NED at Admiral Group plc; NED of Miller Insurance Services LLP; NED of Asta Managing Agency Limited; Council Member of Lloyd's of London; and Adviser at Cytora Limited.

Hiroyuki Iioka
Non-Executive Director

Shareholder appointee

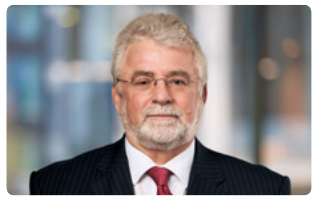
Appointed 23 July 2020

Experience and role on the Board
"Since becoming a Non-Executive Director of Phoenix in 2020, the Group's purpose and values have resonated strongly with me and I believe that my experience in the global insurance industry supports the achievement of Phoenix's expansion strategy. I have held a series of senior roles within the MS&AD (a global insurance group), including executive and director positions at its UK insurance subsidiaries."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; capital markets; finance; asset management; and risk management.
- Experience in the global insurance industry.

External appointments
Senior General Manager, Head of Global Business Development Department for MS&AD Insurance Group Holdings, Inc.

Alternate NED of Challenger Limited, listed on the Australian Stock Exchange.



John Pollock
Independent Non-Executive Director

Chair of the Risk Committee

Appointed 1 September 2016
Committee:

Experience and role on the Board
"After 35 years in insurance with Legal & General, ultimately as CEO of LGAS, my appointment to Phoenix in 2016 was a very natural next step for me. It has been extremely rewarding, helping Phoenix grow from the FTSE250 when I joined. My position as Chair of the Risk Committee has allowed me to be closely involved in helping govern this growth, ensuring sustainability for our stakeholders."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of regulation; life assurance; risk management; customer service and solutions; operations and FTSE 100 Board experience.
- Over 35 years of experience in insurance.

External appointments
None.

Belinda Richards
Independent Non-Executive Director

Appointed 1 October 2017
Committee:

Experience and role on the Board
"My position as a Non-Executive Director of the Phoenix Board 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. This experience has helped me to add value to Phoenix and its stakeholders; and support the achievement of the Group's purpose."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; regulation; finance; life assurance; risk management; customer service and solutions; change; IT/digital; sales/distribution; marketing; operations; and FTSE 100 Board experience.
- Strategic and operational experience; and previous history leading over 50 major acquisition integrations.

External appointments
NED at The Monks Investment Trust plc and NED at Schroder Japan Growth Fund plc.

Nicholas Shott
Independent Non-Executive Director

Appointed 1 September 2016
Committee:

Experience and role on the Board
"My experience includes 31 years as an investment banker at Lazard. Specifically, this experience included running the European Media practice, and acting as a generalist banker in a wide range of sectors and countries. My roles at Lazard included serving as European Vice Chairman, Head of UK Investment Banking and until most recently as Senior Adviser and the Consultant to the firm. My M&A experience has been very relevant to Phoenix since I joined the Board and has supported the Group's purpose and strategy."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; and capital markets.
- 31 years of experience as an investment banker.

External appointments
None.

Board leadership and Company purpose continued

Kory Sorenson
Independent Non-Executive Director
Chair of the Remuneration Committee

Appointed 1 July 2014
Committee:

Experience and role on the Board
"My experience and expertise in insurance, financial services, governance, and human capital enable me to effectively serve Phoenix and its stakeholders as a Non-Executive Director and Chair of the Remuneration Committee. My executive career in investment banking was focused on financial services, the optimisation of capital resources via equity, hybrid and debt capital management as well as M&A, risk management, and life insurance securitisation. My non-executive portfolio provides me with a wide perspective on the insurance market as well as best practice governance in several jurisdictions and key issues in audit, risk, investment, remuneration and sustainability."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of mergers and acquisitions; capital markets; regulation; finance; life assurance; risk management; and FTSE 100 Board experience.
- Close to 30 years of experience in finance.

External appointments
NED and Chair of the Remuneration Committee of Pernod Ricard SA; NED and Chair of the Audit and Sustainability Committees of SGS SA; member of the supervisory board of the privately-owned bank Gutmann AG; member of the Board of Partners of privately-owned COMGEST; NED and Chair of the Audit and Risk Committees of Premium Credit Ltd; NED and Chair of the Audit and Risk Committees of the AA.

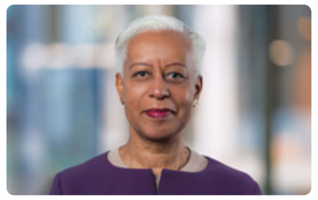
Katie Murray
Independent Non-Executive Director
Chair of the Audit Committee

Appointed 1 April 2022
Committee:

Experience and role on the Board
"I am a Chartered Accountant with nearly 30 years' experience in finance and accounting gained through several roles across the financial services industry. I have extensive knowledge and experience in specialist areas including capital management, investor relations and financial planning which enable me to provide valuable input and expertise during Board discussions. I joined NatWest Group as Director of Finance in 2015 and was appointed as Deputy Chief Financial Officer in March 2017 and Chief Financial Officer in January 2019. I was previously the Group Finance Director for Old Mutual Emerging Markets, based in Johannesburg (2011 to 2015), having held various roles across Old Mutual from 2002. Prior to this I worked at KPMG for 13 years. I am also a member of the Institute of Chartered Accountants in Scotland."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of capital management, investor relations, regulation; finance; risk management; and FTSE 100 Board experience.
- Close to 30 years of experience in finance and accounting.

External appointments
Group Chief Financial Officer of NatWest Group plc.



Maggie Semple, OBE
Independent Non-Executive Director
Designated Non-Executive Director for Workforce Engagement

Appointed 1 June 2022
Committee:

Experience and role on the Board
"I have a breadth of experience in executive and non-executive roles and have enjoyed a varied career to date across education, government, non-profit and commercial roles. I am the co-founder of I-Cubed Group, which offers one to one coaching to enhance and release potential of individuals; I am also the owner of Maggie Semple Limited, a luxury bespoke womenswear business; and I am Chief Executive of The Experience Corps Limited, a global niche consultancy firm which provides strategic advice on leadership learning products. As a result of my career-long passion for sustainability, ethics and inclusivity, I aim to bring a breadth of experience to support the Group's ESG agenda whilst a member of the Board and also add value on customer, people and culture related matters."

Skills, competencies and contribution to the Board
- Core skills and expertise in public and private sector organisations as executive and non-executive roles with strengths in leadership development, cultural change, diversity & inclusion and organisational development.

External appointments
NED of Jamaica National Bank UK Limited; HR Committee Member, University of Cambridge; and Ambassador, Black British Voices Project.

Stephanie Bruce
Non-Executive Director
Shareholder appointee

Appointed 1 July 2022

Experience and role on the Board
"I have gained significant experience of the financial services industry at a senior management level and bring experience of working with boards and managements teams in respect of financial and commercial management, reporting, risk and control frameworks, assurance and regulatory requirements. During my career, I have specialised in the financial services sector working with organisations across asset management, insurance and banking, with national and international operations."

Skills, competencies and contribution to the Board
- Core skills and expertise in areas of; capital markets; finance; treasury; reporting; asset management; and risk management.
- Experience in the global insurance industry and financial services sector.

External appointments
Chief Financial Officer of abrdn plc.

Our business, led by the Executive Committee ('ExCo')
The Executive Management of the Group is led by the CEO, who is supported by the ExCo.

During 2022, ExCo played a key role in driving Phoenix's year of significant progress, striving to help people secure a life of possibilities. Roles and responsibilities of each member of ExCo can be found on the Company's website.

Andy Briggs
CEO

Rakesh Thakrar
CFO

Andy Curran
Chief Executive, Savings and Retirement, UK and Europe

Brid Meaney
Chief Executive, Heritage Division

Jackie Noakes
Chief Operating Officer

Mike Eakins
Group Chief Investment Officer

Anna Franekova
Corporate Development Director

Claire Hawkins
Corporate Affairs and Investor Relations Director

Jonathan Pears
Group Chief Risk Officer

Sara Thompson
Group HR Director

Quentin Zentner
General Counsel

Kulbinder Dosanjh
Group Company Secretary (Secretary to ExCo)

Compliance with the UK corporate governance code in 2022

During 2022 the Company has been fully compliant with the principles and provisions set out in the Code. The tables below summarise how the Company has complied with the principles and provisions of the FRC's 2018 UK Corporate Governance Code (the 'Code') for the year ended 31 December 2022.

The five core elements of the Code are detailed below along with a high level overview of the Company's compliance with the Code

Board leadership and company purpose

Our Board of Directors — pages 74 to 76
Principle A

Our governance framework and the Board's role — page 78
Principle C
Provision 1
(see also: 'Purpose led and integrated governance' on page 80, Audit Committee report on pages 96 to 101 and Risk Committee report on pages 102 to 104;

Conflicts of interest — page 79
Provision 7

Purpose-led and integrated governance — page 80
Principle B
Provision 2
(see also: 'Matters Reserved' on page 78)

Stakeholder engagement — pages 84 to 87
Principle D
Provision 3 (see also: 'Purpose-led and integrated governance' on page 80.
Provision 5
(see also Section 172 Statement on page 43 of the Strategic Report)

Engagement in action — pages 108 to 109
Principle E
Provision 5
(see also 'Stakeholder Engagement From The Top' on page 84, and 'Audit Committee report on pages 96 to 101

Whistleblowing arrangements — page 100
Provision 6
(see also: 'Purpose-led and integrated governance' on page 80 and Audit Committee report on pages 96 to 101

Division of responsibilities

Division of responsibilities on the Board — page 82
Principles F and G and Provisions 9, 10, 12 and 14
(see also: 'Our Board of Directors on pages 74 to 76')
Provision 11
(see also: 'Board Composition and Diversity, on page 92)

2022 Board and committee meeting attendance — page 83
Principle H
Provision 13

Board support — page 83
Principle I; and Provisions 8 and 16

Board member appointment terms — pages 78 to 79
Provision 15

Composition, succession and evaluation

Nomination Committee report — pages 88 to 91
Principles J, K and L
Provisions 17, 18, 19, 20 to 23
(see also: 'Non-financial information statement' page 44 of the Strategic Report for information on gender balance of those in senior management and their direct reports)

Audit, risk and internal control

Audit Committee report — pages 96 to 101
Principles M and N
Provisions 24, 25, 26 and 29
Provisions 27 and 30
(see also Directors' Report on pages 147 to 152 and Statement of Directors' Responsibilities on page 153)
Provision 31
(see also Directors' Report on pages 147 to 152 and the Group's Viability Statement on pages 68 to 69 of the Strategic Report)

Risk Committee report — pages 102 to 104
Principle O
Provision 28 and 29
(see also Principal risks and uncertainties faced the Group on pages 56 to 67 of the Strategic Report)

Remuneration

Directors' remuneration report — pages 110 to 146
Principles P, Q and R
(see also Directors' Remuneration Report on pages 110 to 146)
Provisions 32, 33, 40 and 41
(see also Remuneration Committee Chair's letter on pages 110 to 112 and Remuneration Committee governance and activities on pages 145 to 146)
Provisions 34 to 39
(see Directors' Remuneration Report on pages 110 to 146)

Robust governance

The Board provides strong leadership underpinned by a robust governance framework enabling cohesion of our purpose, strategy, values and culture.

Our Governance framework
The Phoenix Group Holdings plc ('Phoenix', 'Group' or 'Company') governance framework is the foundation upon which the Group is directed and controlled. Our framework provides adaptability and agility to enable Phoenix to operate as a successful and sustainable business, responding to the needs of stakeholders (including future generations of stakeholders) and evolving market conditions in which we operate.
To ensure the adaptability, agility and accountability required to achieve our purpose, the Board drives a culture of empowerment through delegation to its Board Committees and other individuals within Management. Empowerment fosters diversity of thought and innovation to ensure we achieve our strategy and purpose, under the stewardship of our Board.

The Group's high standards of corporate governance and our governance framework are anchored to compliance with the Code which sets standards of good governance for UK listed companies.

Phoenix's governance framework is structured in three layers. The Board oversees the Group – setting the purpose and strategy; ensuring appropriate resources are in place to achieve that strategy; establishing a framework of effective controls aligned with suitable risk appetites; holding Management to account (including through monitoring of behaviours and culture); and, ultimately, promote the long-term sustainable success of the Group.

The Board delegates certain matters to its five Board Committees. The Board Committees support the Board in line with the Code and have established roles and responsibilities prescribed in terms of reference, approved by the Board. High level roles and responsibilities of Board Committees can be found within the governance framework diagram on page 79.

Terms of reference for each of the Board Committees are available on the Company's website.

Matters which are not reserved for the Board, delegated to its Board Committees or for shareholders in general meetings, are delegated to the executive Management team under a schedule of delegated authorities approved by the Board.

More detailed operational and policyholder matters are addressed at the subsidiary board and committee level, including the Phoenix Life Companies Board and Board Committees.

Role 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 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.

Matters reserved for the Board
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 plan;
- 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.

Throughout 2022, the Board has acted in accordance with its matters reserved. The full schedule of matters reserved for the Board is available on the Company's website.

Time Commitment
In order to ensure that the Board and each of its Committees is able to function effectively, each Non-Executive Director ('NED') must commit sufficient time to their respective roles in order to discharge their responsibilities. Time commitment is considered on an ongoing basis, for example, where a new Director is being considered for appointment to the Board, any additional external appointments or an increase in Board responsibilities.

Following an assessment by the Nomination Committee during the year, it is expected that on average, each of the eight scheduled Board meetings is likely to require two days of participation (including Committee meetings, education sessions, travel and Board dinners) and at least a further day of preparation time. It is further estimated that each Director is required to spend at least an additional day each month reviewing information supplied by the Company. In addition, a two day strategy session is held and there are also regular briefing sessions for the Board Committees. On this basis, the basic time commitment required of each Board member is estimated to be at least 40 days each year (unless agreed as 24 days for a full-time executive undertaking a NED role and chairing one Committee). The basic time commitment can be significantly increased on account of transactional or other activity. The Nomination Committee confirms that all NEDs have demonstrated they have sufficient time to devote to their present roles.

Independence
During the year the Nomination Committee assessed the independence of the NEDs to ensure that they are able to properly fulfil their roles on the Board and provide constructive challenge to the Executive Directors.

Our governance framework

Board oversight and delegation to committees and management

Committee and management accountability and performance measuring

Phoenix Group Holdings plc Board
Chair, Alastair Barbour

- Group Strategy
- Group Risk Appetite
- Performance Monitoring
- Major Transactions
- External Debt
- Group Budget
- External/Shareholder Reporting

Audit Committee
Chair, Katie Murray
- Financial Reporting
- Internal Controls
- External Audit
- Internal Audit
- Whistleblowing

See pages 96 to 101

Nomination Committee
Chair, Alastair Barbour
- Board and senior executive appointments
- Diversity and inclusion
- Board and senior executive succession planning

See pages 88 to 91

Risk Committee
Chair, John Pollock
- Risk Appetite and high-level risk matters
- The Group's Risk Management Framework

See pages 102 to 104

Remuneration Committee
Chair, Kory Sorenson
- Group remuneration framework
- Executive director remuneration
- Employee share schemes

See pages 110 to 146

Sustainability Committee
Chair, Karen Green
- Sustainability strategy
- ESG reporting
- Culture monitoring

See pages 105 to 107

Phoenix Group Holdings plc ExCo
Chair, Andy Briggs

- Formulation of objectives and strategy
- Embedding of culture
- Management development and succession
- Business division objectives and budgets
- Business performance
- Recommendation of major capital expenditure proposals
- Operational capacity, resourcing and priorities monitoring

The independence criteria set out in the Code were taken into account as part of the selection process for Katie Murray and Maggie Semple who joined Phoenix during 2022, both of whom were considered to be independent.

During 2022, the Committee determined that all NEDs were free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. In line with the Code, over half of our Board members, excluding the Chair, are independent NEDs. The shareholder nominated Directors, Hiroyuki Iioka and Stephanie Bruce do not meet the independence criteria under the Code. The Chair, Alastair Barbour was independent on appointment. However, as a consequence of becoming Chair whilst Nicholas Lyons is on sabbatical, Alastair will have served on the Board for more than nine years from the date of his first appointment (1 October 2013). Alastair Barbour will retire when Nicholas Lyons returns from his sabbatical which is expected in early November 2023.

Conflicts of interest
A register of conflicts of interest is maintained by the Group Company Secretary. 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. Conflicts of interest are managed through individual director declarations, through discussion whereby the conflicted Director does not participate in discussions relating to the conflict and, where the conflicted Director does not participate in any decision making relating to the conflict.

The Board continues to monitor and note any potential conflicts of interest that each Director may have and recommends to the Board whether these should be authorised and whether conditions should be attached to any such authorisation. Due care and process is, of course, applied in respect of shareholder nominated Board Directors.

Additional appointments
If any Director wishes to take on an additional external appointment, they are required to seek permission from the Board. The Board will take into consideration the additional time commitments, independence and any potential conflicts of interest in relation to the Directors' current roles and responsibilities before any permission is given.

Independent advice
All directors have access to the advice and services of the Group Company Secretary in relation to the discharge of their duties on the Board and any committees they serve on. Furthermore, any directors may take independent professional advice at the Company's expense. During the year, no directors sought to do so.

The Company arranges appropriate insurance cover in respect of legal actions against its directors and has also entered into indemnities with its directors as described in the Directors' report on page 149.

Board leadership and Company purpose continued

Purpose-led and integrated governance

Governance unites our purpose, strategy, values and culture. The Board has continued to oversee the Group's high standards of corporate governance and business performance throughout 2022.

The Group's purpose is to help people secure a life of possibilities which is at the centre of decision-making processes.

The Board considers relevant stakeholder groups in the decision-making process whilst remaining focused on ensuring that outcomes are aligned with the Group's purpose, strategy, culture and values.

Governance

Purpose

Helping people secure a life of possibilities

As the pensions landscape and societal needs evolve, Phoenix has an important role in society through its long-term savings and retirement business. Robust and purpose-led decision-making from the Board and throughout the Group drives responsible and sustainable investment, a strong sustainability strategy and enables long-lasting impact for our customers.

Strategy

Our strategy is set to ensure we continually progress towards the achievement of our purpose and our aim to provide customers with the best possible outcomes. The Board is responsible for establishing the strategy for the Group, ensuring that this is aligned with not only our purpose but also with the values and culture of the business.

Values

Our values articulate the behaviours and qualities Phoenix colleagues are expected to demonstrate throughout the Group. Our values are embedded within our policies (approved by the Board), operational practices (overseen by the Board) and our culture (role modelled by the Board).

Culture

Our culture defines us and has, and continues to be, developed through our values being lived by colleagues each day. The Board sets the cultural tone from the top and acts as the guardian of our values and culture which, together, support the achievement of our strategy, driving our purpose to help people secure a life of possibilities. Board Directors reinforce our culture and values through their conduct (individually and collectively), decisions and strategic oversight.

Purpose, values and strategy

- Approval of Annual Operating Plan.
- Oversight of the launch of the Phoenix Master Brand Visual Identity.
- Approval of the acquisition of Sun Life of Canada UK.
- Two day strategy meeting.
- Monitoring of internal perception of culture and alignment with the Phoenix purpose and values.

Sustainability

- Approval of the Group's 2022 sustainability strategy.
- Monitoring progress against the Group's sustainability agenda and strategy.
- Approval of the Group's 2022 Modern Slavery Statement.
- Approval of Phoenix's Climate Biennial Exploratory Scenario round 2 submission.
- Approval of Phoenix's SBTi targets for submission and subsequent validation.
- Participation in a significant programme of education on climate change, decarbonisation, and sustainability. See pages 94 and 95 for further information on Board education activities.

Financial management and performance

- Monitoring of the Group's solvency and liquidity positions.
- Monitoring of capital resilience, financial performance and growth in Heritage and Open divisions.
- Approval of the Group's dividend policy.
- Recommendation of the 2021 Final Dividend and 2022 Interim Dividend.
- Approval of the Group's funding and capital strategy.
- Approval of the Group's tax strategy.

Workforce policies and culture oversight

- Approval of Group risk policies.
- Whistleblowing oversight.
- Oversight of insights from colleague engagement surveys and culture dashboards.
- Monitoring of colleague engagement initiatives.
- Regular updates from the Designated Non-Executive Director for Workforce Engagement.

Stakeholder engagement

- Monitoring of customer service, operational resilience and colleague well-being.
- Monitoring of investor engagement activities, oversight of the year-end investor presentation and Capital Markets Event presentation materials.
- Consideration of investor and media reaction to YE21 and HY22 results.
- Consideration of investor feedback and analyst reports, including investor sentiment and deep dive session with the corporate brokers.
- Participating in open and honest dialogue with all applicable regulators.
- Interaction with colleagues, through the PCRF and Designated Non-Executive Director for Workforce Engagement (see pages 108 to 109 for more detail) and the Colleague Interaction Session between the Board and colleagues at various stages of their career.
- Annual General Meeting.
- Consultation with major shareholders on executive remuneration policy.

People strategy, diversity & inclusion and succession planning

- Monitoring of data collation through the 'Who We Are' application (including data on social mobility, ethnicity, gender and sexual orientation within Phoenix).
- Oversight of people capability requirements and management actions to enhance capabilities.
- Monitoring of diversity in ExCo +1 (Business Leadership) and ExCo +2 (Senior Leadership) role hires and challenge to the hiring process.
- Approval of Board and Executive Succession Plans.
- Approval of appointment of Group and material subsidiary Board changes.
- Reviewing changes to the Executive Management Team and succession planning.

Risk management and assurance

- Climate change Stress and Scenario Testing.
- Monitoring of the Group's risk culture.
- Approval of the Group's Risk Appetite and assessment of the approach to identifying and managing emerging risks.
- Approval of Principal Risk and Uncertainties disclosures.
- Monitoring performance against the Group's operational risk management framework.
- Receiving and considering regular updates from the Board Audit and Risk Committees.

Corporate governance and reporting

- Simplification of governance continued.
- Monitoring compliance with the Code.
- Internal Board effectiveness review.
- Subsidiary governance oversight.
- External reporting including Annual Report & Accounts, Sustainability and Climate reports.
- 2022 Annual General Meeting.

Valuing diversity of thought and independence on the Board

Clear roles and responsibilities to drive forward our purpose and strategy

The Directors of Phoenix Group Holdings plc ('Phoenix' or the 'Company') understand their role as individuals, and as a collective, to ensure the long-term success of the Company and achievement of the Group's purpose. The Board ensures the appropriate division of responsibilities on the Board, ensuring no existence of unfettered power nor over-reliance on any one person.

The independence of Directors not only supports good governance, but also facilitates diversity of thought and inclusion on the Board.

Division of responsibilities on the Board

Chair

Alastair Barbour is Chair of the Board of Phoenix.

The Chair is responsible for:

- the leadership and effective operation of the Board;
- chairing, and overseeing the performance of the role of the governing body of the firm;
- leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body;
- leading the development of the firm's culture by the governing body as a whole; and
- ensuring an orderly succession process for the Group Chief Executive Officer and the Board as a whole.

The Chair's external commitments are set out on page 74 within this report.

Chief Executive Officer

Andy Briggs is Group Chief Executive Officer ('CEO') of Phoenix.

The Chief Executive Officer is responsible for:

- overall management and operation of the Group within the limits delegated by the Board; and
- operational matters relating to:
  - Business Strategy and Management
  - Investment and Financing
  - Risk Management and Controls
  - Regulation
  - Communication
  - HR Policies.

The CEO's external commitments are set out on page 74 within this report.

Senior Independent Director

Karen Green is the Senior Independent Director ('SID') of the Board.

The SID is responsible for:

- being available to shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate;
- leading the annual appraisal of the Chair's performance by the Non-Executive Directors ;
- acting as the sounding board for the Chair;
- serving as an intermediary between the Chair and the other Directors as necessary; and
- ensuring an orderly succession process for the Chair.

The SID's external commitments are set out on page 74 within this report.

Independent Non-Executive Directors

The Board considers the following Non-Executive Directors ('NEDs') to be independent:

- Karen Green
- Katie Murray
- John Pollock
- Belinda Richards
- Maggie Semple
- Nicholas Shott
- Kory Sorenson

As at 10 March 2023, 58% of the Board are considered to be independent. The Board uses the independence criteria as set out in the Code to assess and confirm independence.

Designated Non-Executive Director for Workforce Engagement

Maggie Semple is the Designated Non-Executive Director for Workforce Engagement ('DNED').

The DNED is responsible for:

- acting as the primary Board contact in facilitating and developing communication between colleagues across the Group and the Board;
- providing the Employee Voice to the Board by raising relevant matters, or issues of concern, highlighted by engagement with the workforce; and
- challenging the Executive Directors, as needed, as to the way in which workforce engagement is undertaken and steps taken to address workforce concerns.

Shareholder nominated Non-Executive Directors

Hiroyuki Iioka and Stephanie Bruce are shareholder nominated NEDs. Hiroyuki Iioka is appointed to the Board on behalf of MS&AD Insurance Group Holdings Inc. and Stephanie Bruce is appointed to the Board on behalf of abrdn plc.

In accordance with the Phoenix acquisition of ReAssure from Swiss Re in July 2020, MS&AD were entitled to appoint a representative Non-Executive Director to the Phoenix Board. A relationship agreement between Phoenix and abrdn plc ('abrdn') includes the right for abrdn to appoint a representative Non-Executive Director, provided they continue to hold 10% or more of Phoenix's shares.

Full descriptions of the roles and responsibilities of the Chair, CEO, SID and DNED are available on the Company's website.

Board support

All Board Directors have access to the advice and services of the Group Company Secretary to support the discharge of their duties and on matters of governance.

The Group Company Secretary supports the Chair, ensuring that directors receive accurate, timely and clear information. Appropriate policies, processes, time and resources are available to the Board to ensure its effective and efficient operation.

The Group Company Secretary ensures that accurate records of Board and Committee meetings are prepared on a timely basis enabling unresolved concerns of Directors to be duly recorded. No concerns were recorded during 2022.

2022 Board and Committee meeting attendance

The Board met formally eight times during 2022, including a two-day strategy setting meeting. During the pandemic, the Board met additionally for regular briefing meetings to continue to monitor the volatile macro-economic environment and oversight of the Group's strategic objectives.

The Board have continued with these briefing calls which serve as a valuable bridge outside of formal Board meetings. Additional meetings have also been held in respect of M&A activity.

The NEDs met with the Chair on seven occasions without Executive Directors present.

The following Board and Board Committee attendance table below details all formal Board and Board Committee meetings held during 2022.

The Nomination Committee has confirmed its absolute satisfaction with the time and commitment given to the Phoenix Board and its Committees by all Directors.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Sustainability Committee
	Actual/Max	Actual/Max	Actual/Max	Actual/Max	Actual/Max	Actual/Max
Chair						
Nicholas Lyons[1]	6/6				4/4	
Alastair Barbour[2]	8/8	7/7	7/7		5/6	
Executive Directors						
Andy Briggs (CEO)	8/8					
Rakesh Thakrar (Group CFO)	8/8					
Non-Executive Directors						
Karen Green[3]	8/8	8/9		7/8	2/3	5/6
Hiroyuki Iioka	8/8					
Wendy Mayall	8/8		9/9			6/6
Maggie Semple[4]	4/4		2/2			2/2
John Pollock[5]	8/8	9/9	9/9		1/1	
Katie Murray[6]	4/5	3/4				
Belinda Richards[7]	8/8		7/9	8/8		
Nicholas Shott	8/8	9/9		8/8	6/6	6/6
Kory Sorenson[8]	8/8		8/9	8/8	6/6	6/6
Mike Tumilty[9]	5/5					3/3
Stephanie Bruce[10]	3/3					

1 Nicholas Lyons commenced his sabbatical on 1 September 2022.
2 Alastair Barbour commenced his position as Chair on 1 September 2022. Alastair was unable to attend a Nomination Committee meeting due to a scheduling conflict.
3 Karen Green was appointed as SID following the conclusion of the Annual General Meeting in May 2022. Karen was unable to attend Committee meetings in October 2022 due to illness.
4 Maggie Semple was appointed as a director on 1 June 2022 and became DNED on 1 July 2022 and a member of the Risk and Sustainability Committees on 1 September 2022.
5 John Pollock joined the Nomination Committee on 1 November 2022 and was unable to attend one Nomination Committee meeting due a pre-existing commitment.
6 Katie Murray was appointed as a director on 1 April 2022 and became Chair of the Audit Committee on 1 September 2022 . Katie was unable to attend a Board and Committee meeting due to pre-existing commitments arranged prior to joining the Phoenix Board.
7 Belinda Richards was unable to attend two meetings of the Risk Committee due to a scheduling conflict and delayed travel.
8 Kory Sorenson was unable to attend a Risk Committee meeting due to the meeting being held at short notice and conflict with a previously scheduled engagement.
9 Mike Tumilty retired from the Board on 30 June 2022.
10 Stephanie Bruce was appointed as a director on 1 July 2022.

The above table excludes ad-hoc or additional meetings. In addition to the above, the Board's ad-hoc M&A Advisory Committee, comprised of Nicholas Shott (Chair), Alastair Barbour, Karen Green and Belinda Richards, met three times during 2022. The Board's ad-hoc Advisory Committee comprised of Alastair Barbour, Karen Green and Rakesh Thakrar met twice during 2022.

Stakeholder engagement

Stakeholder engagement from the top

Strategic priorities key

- Optimise our in-force business
- Grow our business to support both new and existing customers
- Enhance our operating model and culture

Details of the Group's broader stakeholder engagement and related outcomes can be found in the Strategic Report on pages 42 to 43.

Section 172 of the Companies Act 2006 (the 'Act') requires each director of a company to act in the way they consider, 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.

The Directors have applied Section 172 of the Act in a manner consistent with the Group's purpose, values and strategic priorities, having due regard to the Group's ongoing regulatory responsibilities as a financial services operation. 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.

Pages 86 to 87 contain examples of key decisions of the Board, their alignment to the Group's strategy, how the Board reached its decision (including consideration of matters set out in Section 172; the interests of stakeholders; related risks and opportunities; and challenges it faced) and the outcome of those considerations. The examples shown are provided to demonstrate how the Directors of the Company have carried out their duties under Section 172 of the Act.

Key stakeholder groups

Customers

Our customers are core to our purpose and strategic priorities. By listening to their needs and what matters most, the Group is able to truly progress towards helping people to secure a life of possibilities.

The Board recognises its responsibility and duty to oversee the success of the business for all customers.

Link to strategic priorities: Optimise our in-force business; Grow our business to support both new and existing customers

How the Board has engaged with and had oversight of stakeholder views during the year?

- The Board received regular updates from management on the potential impact on customer service as a result of projects undertaken, with detailed oversight of customer service being undertaken by the subsidiary Board for the Phoenix Life Companies and its committees.
- The Board monitored the impact of the Group's change agenda, including sufficient resource to maintain focus on customer outcomes and conduct risk management.
- The Board approved the Customer Acceptance Criteria as a part of Phoenix's toolkit for future acquisition which provide details of Group's plans for inclusion of an assessment of customer impact and customer fair treatment benefits in its acquisition strategy
- The Board Remuneration Committee (which reported to the Board on a regular basis) focused on customer outcomes during the year, allocating 25% of the 2022 Annual Incentive Plan to be aligned with customer satisfaction metrics (see the Directors' Remuneration Report on pages 110 to 146 for more detail).

The Board's role in promoting positive stakeholder relationships

The Board held management to account throughout the year, ensuring due care and attention was given to customer outcomes and needs, especially in the context of data and platform migration work and projects to grow and develop the Group.

Suppliers

We depend on our suppliers in order to deliver services to our customers and provide the Group with operational support, working in partnership with Phoenix to achieve our strategic priorities.

The Board understands that the quality of relationships we maintain and develop with our suppliers, strategic or otherwise is a core objective as we seek to fulfil our ultimate purpose of helping people secure a life of possibilities.

Link to strategic priorities: Optimise our in-force business; Enhance our operating model and culture

How the Board has engaged with and had oversight of stakeholder views during the year?

- The Board received regular updates from the CEO on customer service performance and outsourced services (including any ongoing impact of COVID-19), with additional detailed oversight being undertaken by the subsidiary Board for the Phoenix Life Companies and its committees.
- The Board and its Risk Committee monitored risks related to suppliers, including the potential for poor customer service and risks connected with the migration of acquired books of business. Such monitoring included discussions with regulators to ensure clarity of Phoenix's focus on positive customer outcomes.
- The Board Risk Committee received updates from the Group Chief Risk Officer on service levels provided by suppliers and considered fulfilment of Service Level Agreement terms in the year, with detailed oversight of customer service being undertaken by the subsidiary Board for the Phoenix Life Companies and its committees.
- The Board approved the Group's Modern Slavery and Human Rights Statement ('Modern Slavery statement') which outlines steps that Phoenix took, in the financial year ended 31 December 2021, to ensure slavery and human trafficking has not taken place in our supply chain; and sets out an expectation for suppliers to meet the Group's Supplier Code of Conduct. The Modern Slavery statement is available on the Company's website.

The Board's role in promoting positive stakeholder relationships

The Board monitors the performance of suppliers to ensure Phoenix is able to provide the best customer outcomes to deliver its operational and financial targets. Positive relationships with suppliers are vital to the success of both Phoenix and our suppliers.

Colleagues

Our colleagues are a key asset to the Group and to the achievement of our strategic priorities and long-term success. Their dedication, commitment and capabilities are integral to the Group's success.

Our values unite our colleagues enabling a champion led culture to reach our purpose and achieve our strategy. Oversight of our culture, purpose, values and colleague initiatives and is a core focus for the Board. The Board considers colleagues in the widest sense, including the Group's relationships with its pension schemes and members who are former colleagues as well as members of the Group's workforce who are not employed directly by the Group.

Link to strategic priorities: Grow our business to support both new and existing customers; Enhance our operating model and culture

How the Board has engaged with and had oversight of stakeholder views during the year?

- The Board received updates on colleague well-being and engagement levels.
- The Board monitored the impact of projects and the Group's change agenda on colleagues, including potential areas of stretch on resource.
- Members of management, beyond the ExCo, were invited to join the Board to present and take part in discussions at meetings throughout the year.
- The Board and Board Sustainability Committee received updates from the DNED following engagement sessions with colleagues, including meetings with the PCRF. The Board members met a range of colleagues and listened to their views, ideas and experiences which will inform Board agenda and decision-making as a part of the Colleague Interaction Session.
- Received updates on the cost of living crisis and the impact on colleagues, including establishment of cost of living working group and implementation of a number of incentives such as free lunches and bonuses.

The Board's role in promoting positive stakeholder relationships

The Board sets the cultural tone from the top and engages with colleagues (both directly and indirectly) which is key to ensuring positive relationships. Two-way engagement enables colleagues to be kept informed of how the Board is driving the Group in the right direction and enables the Board to stay connected to what's important to colleagues and how the decisions it makes impacts their working lives.

Community

Our purpose to help people secure a life of possibilities extends to our communities. These communities comprise our colleagues (including future colleagues), customers (including future generations of customers), suppliers and many other stakeholders.

The Board understands the importance of building trust and inspiring confidence through community engagement and partnerships.

Link to strategic priorities: Grow our business to support both new and existing customers; Enhance our operating model and culture; Optimise our in-force business

How the Board has engaged with and had oversight of stakeholder views during the year?

- The Board Sustainability Committee received updates on progress against KPIs and targets aligned with the Group's community engagement strategy, with relevant highlights reported to the Board.
- Through educational deep dives and external perspectives, the Board Sustainability Committee has continued to broaden and develop Committee members' understanding of specific community-related themes such as financial inclusion, stewardship and building and social housing activities in sustainability-related areas.
- The Group HR Director provides regular updates on colleague engagement activities, initiatives and progress on community related KPIs which can be found in the Sustainability Report.

The Board's role in promoting positive stakeholder relationships

The Board, through the Board Sustainability Committee, has monitored management's engagement activities with our communities, ensuring that Phoenix is able to fulfil its purpose and colleagues have the opportunity to participate in charitable giving and volunteering within the community. It is the Board's role to hold management to account in maintaining sufficient resources needed to support our communities.

Investors

Our investors continue to be crucial to the growth and achievements of the Group. Phoenix is dedicated to delivering long-term value to our shareholders and intends to provide a dividend that is sustainable and grows over time.

The Board understands the value our investors add to safeguarding the Group's governance through monitoring of performance and engagement with the Board throughout the year.

Link to strategic priorities: Grow our business to support both new and existing customers; Enhance our operating model and culture; Optimise our in-force business

How the Board has engaged with and had oversight of stakeholder views during the year?

- The Board received regular updates from the CEO on investor relations activities and feedback/questions received from investors.
- Investor feedback from the Group's results announcements and investor roadshows was reported to the Board during the year.
- The Board considered key considerations relating to investor messaging and various investor communication approaches.
- The Board considered and provided feedback on the contents of the year-end investor presentation.
- Board members, including the Board Chair and Non-Executive Directors acting in the capacity of Committee Chairs, were available to investors for engagement, including to answer questions on significant matters related to their areas of responsibility. Prior to, and at, the Company's AGM, investors were able to submit questions to be answered by each of the above.
- The Capital Markets Event held in December 2022 enabled the Board and Executive management team to interact with potential and existing investors.
- The Chair has, since the end of 2022 (January 2023), undertaken a schedule of meetings with major investors to discuss topical matters of importance to them.
- Major shareholders were consulted as part of the process in developing Directors' remuneration policy

The Board's role in promoting positive stakeholder relationships

The Board monitors investor sentiment and feedback throughout the year to ensure Phoenix is able to respond to investor concerns, which is key to the success of the Group.

The Board also ensures that the Group's strategy and purpose are set to ensure the long-term success of the business and generation of value for shareholders.

Government, trade bodies and regulators

As the UK's largest long-term savings and retirement business, our business is subject to financial services regulation. Phoenix Group Holdings plc is also subject to listed entity regulation. The way we operate and interact with our regulators provides the trust and reassurance needed by stakeholders to enable Phoenix to deliver its purpose.

The Board acknowledges the importance of maintaining positive relationships with the Government, trade bodies and regulators to enable the Group to act as a thought leader and to communicate the views and concerns of our customers and society generally.

Link to strategic priorities: Grow our business to support both new and existing customers; Enhance our operating model and culture

How the Board has engaged with and had oversight of stakeholder views during the year?

- During the year, the Board as a whole met with the FCA and PRA during the year on a range of issues relating to the impact of each regulators' strategic objectives and future regulatory matters.
- At the request of the PRA and FCA, certain Board directors may be required to meet on a formal basis.
- The Board received updates on management's interactions with regulators and any feedback received from those bodies.
- The Board challenges Management on ensuring that Phoenix maintains open and honest dialogue with the FCA, PRA, Central Bank of Ireland, TPR and other jurisdictional regulators.

The Board's role in promoting positive stakeholder relationships

As the guardian of the Group, (ensuring robust governance, controls and risk management) the Board is responsible for holding management to account for day to day compliance with regulation and legislation; ensuring transparent communication of such compliance to maintain trust in Phoenix.

Key board decisions

Strategic priorities key

- Optimise our in-force business
- Grow our business to support both new and existing customers
- Enhance our operating model and culture

Example key Board decision	Acquisition of Sun Life of Canada UK
Link to strategic priorities	**How the Board reached its decision**
Optimise our in-force business; Grow our business to support both new and existing customers; Enhance our operating model and culture	**Consideration of section 172 matters** During the year, the Board considered and agreed to acquire the business of SLF of Canada UK Limited ('Sun Life of Canada UK'). It was agreed that the Risk Committee and the M&A Advisory Committee would have oversight of specific elements of the transaction to support the Board in reaching its decision. The Board identified customers, colleagues, investors, regulators and suppliers as key stakeholders in the decision making process. Discussions of the potential risks and opportunities for each category of stakeholders were considered throughout the acquisition process. During the due diligence process, the Risk Committee and M&A Advisory Committee had oversight of various risks including market risks, counterparty risks, regulatory risks, conduct risks and operational risks with updates provided to the Board on intended mitigation actions being or due to be taken in advance of the final Board decision. Furthermore, supported by appropriate opinions from the Group Risk function, a formal acquisition impact assessment and an assessment of any potential barriers to completion and integration were reviewed. The Board fully considered the Group's strategic priorities and duty to promote the success of the Company. The Board considered the impact of the decision to acquire Sun Life of Canada UK on customers, existing and future, taking into account Sun Life of Canada UK's products and the potential to access a larger portfolio of product choices under the Phoenix brand. The Board also considered outcomes for Sun Life of Canada UK employees and reflected on the principles of Consumer Duty. In the wider context of customers and suppliers, the Board sought to understand the viability of integrating operations, outsourcing partners and potential expense synergies whilst maintaining appropriate levels of customer service and customer experience. The Board also considered the long-term interests of shareholders and value creation from smaller M&A transactions with key focus on valuation and financing (including solvency projections).
Outcome	Announced the Group's first ever cash-funded acquisition of Sun Life of Canada UK for consideration of £248 million. This transaction, which is expected to complete in April 2023, is expected to deliver c.£0.5 billion of incremental long-term cash generation, including c.£0.1 billion of integration synergies, net of costs. This transaction also benefits from a simplified operational integration programme, due to the majority of policy administration already being undertaken by our strategic outsourcing partner (TCS Diligenta). The significant value we expect to generate from this transaction enabled the Board to recommend a 2.5% inorganic dividend increase this year (as part of the 2022 final dividend) which demonstrates the significant value to shareholders of smaller, cash funded M&A that provides a sustainable dividend that is growing over time.

Example key Board decision	Payment of 2021 final dividend
Link to strategic priorities	**How the Board reached its decision**
Optimise our in-force business; Grow our business to support both new and existing customers	**Consideration of section 172 matters** The Board considered the long-term impact of paying the 2021 Final Dividend on the Group's liquidity and solvency positions by reviewing the outcome of market sensitivities and stress scenarios. The stress scenarios included COVID-19 related uncertainties, associated economic recovery periods, credit downgrades and impact of a one in ten market stress calibrated to the Group's internal model. The Board also considered reverse stress testing and market volatility associated with the inflationary pressures and impact of the Ukraine-Russia conflict. The Board also considered the impact of the dividend decision on shareholder expectations as it relates to the Group's dividend policy. In reviewing the appropriateness of the payment or non-payment of the dividend, the Board considered the impact of its decision on the wider economy, the investment case and business model. The Board 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.
Outcome	Following due consideration of all the matters set out in section 172 of the Act, the Board determined that the payment of the 2021 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).

Nomination Committee report

Q&A

with the Nomination Committee Chair, Alastair Barbour

What were the key highlights of the Nomination Committee activity during 2022?
2022 has been a year characterised by further progress and focus on succession planning activities taking into account the skills, experience and diversity required at Board level. This progress is underpinned by a clear intention to continue to harness the capability, skills and experience of the Board as a whole in the spirit of continuous improvement. Further steps have been taken to enhance diversity in the broadest sense through the appointment of Maggie Semple.

What were the key considerations for the Nomination Committee during 2022?
The Board was cognisant of the number of changes that were taking place to the membership of the Board during the year, with Nicholas Lyons going on sabbatical, Wendy Mayall retiring, myself taking over as Chair, Karen Green assuming the role of the SID, Katie Murray becoming the Chair of the Audit Committee and two new directors joining the Board; Maggie Semple and Stephanie Bruce. The Board worked hard to ensure there was a smooth handover process with minimum disruption. All Board members have adapted to their new roles extremely efficiently with positive feedback.

How has the Nomination Committee approached succession planning during 2022?
In 2021, the Nomination Committee ('Committee') recognised that the skills and experience on the Board could be enhanced in respect of the oversight of our growing Open business, digital and customer focused businesses and at the same time continue to develop diversity in the broadest sense (skills, experience, ethnicity, gender, background and age) to support robust decision making, avoiding 'group think' and enabling consideration of different perspectives when taking action to drive forward the Group's strategic priorities. This process continued into 2022 and when appointments were made in the year, feedback on the succession planning activities was sought through the Board Evaluation exercise conducted in late 2022. Additionally, the Committee was mindful that a number of Board members would reach their nine year tenure over the next three years and has taken steps to maintain orderly succession where possible by staggering Board member retirements. This approach enables the Board to benefit from stability as well as continuing to ensure the most appropriate balance of skills and experience, diversity in the broadest sense and remains forward looking.

What do you see as the Committee's key areas of focus in 2023?
Continued focus on forward-looking Board succession planning, enhancing talent and succession planning for Executive Directors and senior Management and continuing to focus on developing Board skills, capability and experience in actuarial/life and investment in line with strategic priorities to grow the asset Management business.

How has the Committee considered Board composition and diversity and inclusion during the year?
A Board skills review was carried out to ensure we have the right breadth of skills and capability needed to oversee our strategic priorities and we have enhanced the quality of the Board and senior Management through hiring individuals that bring additional valued attributes such as diversity of experience, skills and perspective. We prioritise this in all our engagements with search firms and ensure that they, as suppliers of services to Phoenix, are aligned with these aims. In 2022 the focus was on enhancing diversity in the broadest sense and the Board continues to focus on improving diversity and inclusion in the Boardroom and will continually mandate search firms to produce diverse and balanced short lists whilst recognising at all times that the best candidate for the role will be appointed.

Members Attendance at Committee meetings (actual/maximum eligibility)

Alastair Barbour[1]	5/6
Nicholas Lyons[1]	4/4
Karen Green[2]	2/3
Nicholas Shott	6/6
Kory Sorenson	6/6
John Pollock[3]	1/2

1 Alastair Barbour was appointed Chair of the Committee on 1 September 2022 and was unable to attend a meeting due to a scheduling conflict. Nicholas Lyons took up his sabbatical effective 1 September 2022.
2 Karen Green became a member of the Committee on 5 May 2022 and was unable to attend a meeting in October 2022 due to illness.
3 John Pollock became a member of the Committee on 1 November 2022 and was unable to attend a meeting due to a pre-existing arrangement.

2022 highlights

- Board and Executive Director succession planning
- Board skills review and renewal of terms of appointment
- Non-Executive Director recruitment – actual and planned
- Talent, capability, diversity and inclusion reviews
- Review of Directors' time commitments and independence

Role of the Committee
The 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.

Composition of the Committee
With the exception of the Chair, all of the members of the Committee are Independent Non-Executive Directors.

Board succession
During 2022, the Committee has remained active in its consideration of Non-Executive Director ('NED') succession, which following further consideration by the full Board, has led to:

- The appointment of Alastair Barbour as Chair for the duration of Nicholas Lyons' sabbatical as Lord Mayor of the City of London from September 2022 to November 2023. Alastair reached a tenure of nine years on the Board in October 2022 and is therefore not considered independent. However, his appointment as Chair is considered to be in line with Provision 19 of the Code where an extension past the nine year period is deemed acceptable for a limited time particularly where the Chair is an existing non-executive director.
- The appointment of Karen Green as Senior Independent Director from the conclusion of our AGM on 5 May 2022.
- The appointment of Katie Murray as a NED from 1 April 2022 and as a Chair of the Audit Committee from 1 September 2022.
- The appointment of Maggie Semple as a NED from 1 June 2022 and her subsequent appointments as Designated NED for Workforce Engagement on 1 July 2022 and as a member of the Risk and Sustainability Committees from 1 September 2022.
- The retirement of Wendy Mayall from the Board from 31 December 2022 and associated succession activity.
- Support for the appointment of Stephanie Bruce as the nominated representative of abrdn adding valuable and relevant skills through her executive role as CFO of a major financial institution.

The standard process used by the Committee for Board appointments involves the use of an external search consultancy to source external candidates and, in the case of executive appointments, also considers internal candidates. Detailed assessments of shortlisted candidates are undertaken by the search consultancy and the Committee ensuring there is a balanced shortlist from a diversity perspective, followed by interviews with Committee members and other Directors and obtaining references prior to the Committee recommending the appointment to the Board. The Committee requires search firms to ensure that both long-lists and short-lists are balanced from a diversity and inclusion perspective.

This process was followed for the appointment of Katie Murray and Maggie Semple and the search firms engaged were Sainty Hird & Partners and Korn Ferry, respectively. Both search firms are signatories to the Executive Search Firms' Voluntary Code of Conduct and neither firm had any other connections with the Company or its directors during the year.

Executive succession planning is undertaken by the Committee for Executive Directors and for ExCo roles ensuring appropriate succession in an emergency situation with at least one successor who is ready now or expected to be ready in one to two years. The Board also had a deep dive into the broader talent, capabilities and broader diversity agenda. It remains a particular ongoing area of focus and interest as the Company continues to build its capabilities and strengthens the succession pipeline.

Board skills
A Board skills review was undertaken during the second half of 2022 and concluded that skills could be expanded further in actuarial/life company experience, investment and wider financial services experience. The search for Wendy Mayall's successor was based on this criteria. Board skills are separated into core and secondary skills which can be found on page 92.

Board diversity
The Board supports and complies with the FTSE Women Leaders Review (formerly known as the Hampton-Alexander Review) guidance for FTSE 350 companies that the Board should be comprised of at least 33% female directors. As at 10 March 2023, the Board is comprised of 50% female directors. In addition, the Board met the recommendations of the Parker Review for FTSE 100 companies that there should be at least one director from an ethnic minority background on the Board by 2021. As at 10 March 2023, the Board has three Board members of an ethnic minority background representing 25% of the total Board composition. Further information can be found on page 92.

The Committee meets the requirements set out in the FCA's Listing Rules (LR 9.8.6(9)) on diversity, the targets are:

- At least 40% of the board are women
- At least one of the senior board positions (Chair, Chief Executive Officer, Senior Independent Director or Chief Financial Officer is a woman
- At least one member of the board is from a minority ethnic background

The tables are over the page:

Composition, succession and evaluation

Gender diversity

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive Management	Percentage of executive Management
As at 10 March 2023					
Men	6	50%	3	6	55%
Women	6	50%	1	5	45%
As at 31 December 2022					
Men	6	46%	3	7	58%
Women	7	54%	1	5	42%

Ethnic diversity

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive Management	Percentage of executive Management
As at 10 March 2023[1]					
White British or other White (including minority-white groups)	9	75%	3	10	91%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	2	17%	1	1	9%
Black/African/Caribbean/Black British	1	8%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–
As at 31 December 2022[1]					
White British or other White (including minority-white groups)	10	77%	3	11	92%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	2	15%	1	1	8%
Black/African/Caribbean/Black British	1	8%	–	–	0%
Other ethnic group, including Arab	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–

1 Based on the ONS classification and included: Asian, Black, Mixed/multiple ethnic groups, Other ethnic groups, White and Prefer not to say.

Board diversity policy

Board policy	Progress
The Board's overriding aim is to appoint the right Directors to the Board to drive forward the Group's strategy within a compliant framework.	During the year, Katie Murray and Maggie Semple joined the Board. Both of their experience, background and skills are aligned with the Group's strategy. The Board will endeavour to appoint the right candidate for the role and seeks to enhance diversity in the broadest sense at all times.
The Board promotes the enhancement of diversity, including gender and ethnicity, as a consideration when recruiting new Directors.	In line with our succession planning processes, we undertake a formal, rigorous and transparent search process for each appointment, considering the current balance of skills, experience and diversity amongst our directors. Each appointment is made subject to receipt of the requisite regulatory approvals (where required). The Committee strives to achieve balanced recruitment longlists demonstrating diversity in the broader sense, including gender, ethnicity and other diversity attributes and will challenge search firms to ensure this aim is achieved.
The Board intends to comply on a continual basis with the FTSE Women Leaders Review that the Board should be comprised of at least 33% female directors and with the guidance of the Parker Review for FTSE 100 companies that there should be at least one director of a minority ethnic group on the Board.	As at 10 March 2023: • 6 female directors representing 50% of Board composition. • 3 minority ethnic directors representing 25% of Board composition.
The Board will undertake regular skills audits to ensure the Board's skills remain appropriate for its strategy and providing diversity where possible.	The Board skills review has been carried out during 2022 and concluded that enhancing the skills in the following areas, actuarial/life company, investment and wider financial services experience would be valuable going forward.

The Committee has been active in promoting gender and ethnic diversity on the Board and continues to take 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 Phoenix colleagues (including the executives) are contained in the Group's Sustainability Report. The Group's senior Management gender diversity data (including statutory requirements) is contained in the Strategic Report on page 44.

Board independence

With the exception of the Chair and shareholder appointee directors, all NEDs are considered independent in character and judgement. The independence criteria set out in the Code were taken into account as part of the selection process for the NEDs who joined Phoenix during the year, Katie Murray and Maggie Semple were considered to be independent. Stephanie Bruce was not considered to be independent in her capacity as a shareholder nominated director. Over half of our Board members, excluding the Chair, are independent NEDs. The independence of NEDs is reviewed and confirmed annually by the Committee.

Time commitment

All Directors are expected to commit sufficient time to the Board, and the Company, as is necessary to carry out their duties as a Director. Time commitments for directors are reviewed by the Committee on a regular basis including: prior to recommendation for appointment to the Board, on changes in role (joining additional committees or taking on further responsibility) and prior to approving external appointments.

The Company Secretary maintains a register of Directors' commitments which is regularly reviewed by the Committee. As part of the Board evaluation process, the Board, supported by the Committee considered each individual Director's attendance, contribution and external appointments, and has concluded that the time given by individual Directors during 2022 exceeded the level expected in their appointment terms. It is expected that on average, each of the eight scheduled Board meetings is likely to require two days of participation (including Committee meetings, education sessions, travel and Board dinners) and at least a day of preparation time.

Each Director is required to spend at least an additional day each month reviewing information provided by the Company. In addition, a two day strategy session is held and there are regular briefings for the Board Committees. On this basis, the estimated time commitment of each Board member is approximately 40 days each year (who serves on more than one committee). This basic time commitment can be significantly increased on account of transaction or other activity.

Board evaluation

An evaluation of the performance of the Board and its Committees and individual Directors was carried out in the latter part of 2022. The process, which was led by the Chair with the support of the Group Company Secretary, involved completion by Directors of a questionnaire covering all aspects of Board and Committee operations and Director effectiveness, education and training followed by individual meetings with each Director. The findings were discussed by the Board in November 2022. The focus of the review was on ways for the Board to manage its time effectively, drive strategy and monitor performance.

The review concluded that the Board is cohesive, well-balanced and operates as a team. Management value the nature of challenge and support from the Board which is considered to be open, constructive and respectful. The 2022 review concluded that the Board and its Committees operated and were chaired effectively and the balance of material discussed at the Committee level was appropriate.

In line with the recommendations from the 2021 review, the Board continued to focus and make progress on the strategy and appropriate time was allocated to understanding and review of key areas of business during the Board's strategy meeting in June 2022 as well as having regular strategic matters presented to the Board during the course of the year. Information provided to the Board has improved with a new Board paper template introduced, clearer executive summaries and signposting whether papers are for information, discussion or approval and short written summaries of Committee activities provided by the respective Chairs.

Board evaluation – areas of development for 2023

- Strategic Topics – further deep dives into the Open Business, including the existing European business' strategy.
- Education/Training – determination of the topics to be included in 2023 and ensure compliance/regular required matters are covered in the most efficient manner.
- Colleague Engagement – to enhance colleague engagement for Directors working with the Designated NED for Workforce Engagement.
- Talent and Succession Planning – closer focus as the Group continues to build its capabilities and strengthens the succession pipeline.
- Board Information – ongoing improvement in the quality and content of information to the Board building on the progress made in 2022.

Committee Effectiveness

The Committee effectiveness was undertaken as part of the Board Evaluation process and concluded that it operates effectively and performs strongly. All duties set out in the Committee's Terms of Reference were addressed during the year. The areas of enhancement for the Committee for 2023 are focused on continuing to strengthen the talent and succession planning for the Board, Executive Directors and the Executive Committee and ongoing improvement of information to the Committee.

Assessment of the Chair's Performance

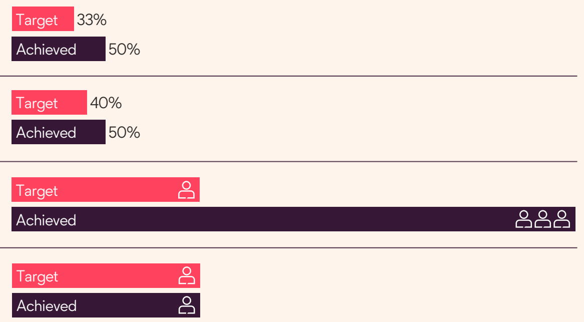
Led by the SID, two assessments were conducted to reflect the transition between Nicholas Lyons and Alastair Barbour for the respective periods served as Chair during 2022. A questionnaire was circulated to the Board and followed by a Board meeting to assess performance without the Chair present. Following the meeting, feedback was provided by the SID to Nicholas Lyons and Alastair Barbour. The Board consider Nicholas Lyons to be a high performing Chair who has made a significant impact on the Management of Phoenix. Directors believe Alastair Barbour has transitioned very effectively into the role of Chair.

Alastair Barbour
Chair

Board diversity

The composition of the Board ensures a diverse mix of backgrounds, skills, knowledge and expertise to enhance decision-making; reduce the risk of 'group-think'; and support robust Management of risk.

Overall diversity progress



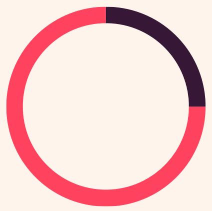
Board gender balance[1]

Female	50%
Male	50%

1 As at 10 March 2023, 50% Female Board representation which exceeds recommendations of FTSE Women Leaders and new FCA Listing Rules

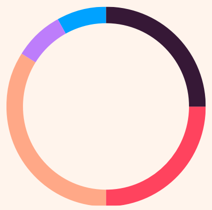
Board ethnicity

White (English)	50%
White (Scottish)	17%
Asian (Indian)	9%
Asian (Japanese)	8%
Black (Caribbean)	8%
White (Other)	8%



Directors of colour	25%
Directors of non-colour	75%

Board tenure



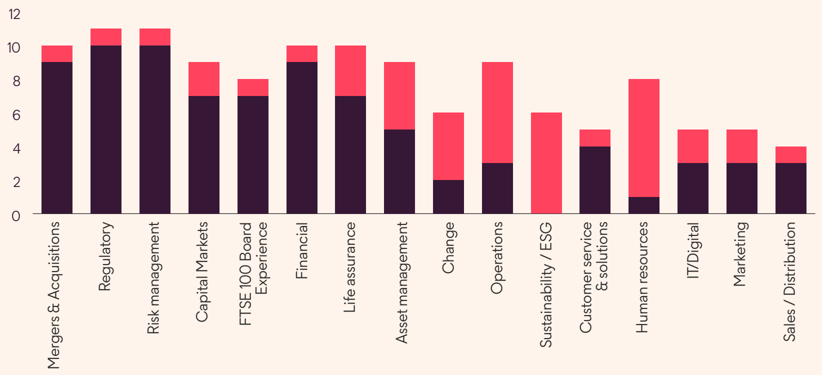
Less than 1 year	25%
1–3 years	25%
3–6 years	34%
6–9 years	8%
9 years or more	8%

Average age of the Board

59

Board Skills and Expertise

The Board skills and expertise below shows a high level of skills in the expected categories and a wide breadth of skills across the Board. The assessment of Board skills and areas of expertise feeds into its succession planning and the ongoing recruitment of Non-Executive Directors, with action being taken to address areas highlighted for strengthening.



Board induction

The Chair is responsible for leading the development of, and monitoring the effective implementation of, training policies and procedures for the Directors. On appointment, each Director receives a formal and tailored induction. In addition, there is a programme of ongoing education and deep dives for Directors.

The Directors are committed to their own ongoing professional development and the Chair discusses training with each NED at least annually. The Group Company Secretary supports the Chair in the oversight of the induction and development plans for the NEDs.

All NEDs are encouraged to suggest training topics of interest.

All directors are able to access a Board portal where additional resources are available.

Katie Murray

Joined the Board on 1 April 2022
Board responsibilities:

- Chair of the Audit Committee

"My onboarding experience at Phoenix was well-structured and has been characterised by meetings with relevant stakeholders and absorbing relevant information to help me understand Board and Group operations, risks and opportunities and key areas of focus.

The schedule of meetings with senior Management and other key internal stakeholders was well-managed. In addition during my first year of joining the Board, I was appointed as Chair of the Audit Committee and I am grateful to Alastair Barbour for the smooth handover of responsibilities."

Maggie Semple, OBE

Joined the Board on 1 June 2022

- Designated NED for Workforce Engagement
- Member of Risk Committee
- Member of Sustainability Committee

"The induction programme at Phoenix has been exemplary. I have been impressed by the quality of the information and level of preparation by my new colleagues in advance of the meetings. Each person had read my CV and encouraged me to contact them after the meeting for follow up discussions. Each meeting left me with a strong sense of support and eagerness to succeed in my new role.

The impact of these meetings has enabled me to accelerate my understanding of the business, key stakeholders, risks and opportunities.

In my first year at Phoenix and in my role as Designated NED for Workforce Engagement, I continue to develop my knowledge of the business and in my interactions with colleagues, the theme of living Phoenix values is regularly demonstrated."

Typical induction programme features

Meetings	Site tours and meetings with Management	Key documents
• Chair • Group Company Secretary • Group Head of Internal Audit • Head of M&A and Corporate Development • Group treasurer • Other members of the ExCo, as appropriate • External stakeholders which may include Group auditor, brokers, major shareholders or remuneration consultants.	• London • Edinburgh • Birmingham • Telford	• Board operations, minutes and meeting packs, framework, policies, delegations of authority, conduct/regulatory responsibilities • Financial, strategic and operation plans and priorities • Directors' & officers' liability insurance summary • Other documents as appropriate in relation to the level of Board or Board Committee responsibilities

Board development

Each year, through its annual performance review, the Board ensures a continuous improvement cycle and clear focus on personal and collective development through a formal programme of education/deep-dive sessions. The following education/deep dive sessions were provided for the Board during 2022. Board Committees may have specific educational or deep dive session which are relevant to the work of each Committee.

Q1

Customer migration programmes
Programme structure; migration sequencing; new business enhancements, financial metrics; and programme costs.

Phoenix Asset Management
Portfolio overview; asset Management strategy; overview of credit risk governance and oversight; sustainable investments; and shareholder assets and direct investments.

Cyber & data security
Bi-annual update of most significant threats, enhancements to controls implemented in 2022 and intended key areas of focus in 2023.

Q2

Colleague insight & engagement
The Group's strategy and approach to colleague engagement; dashboard functionality; scoring; employee engagement and engagement drivers; benchmarking; key areas of future focus.

Strategy
Various matters considered within the context of the two-day strategy off-site including Digital and fintech landscape and Sustainability: decarbonisation and engaging people in better financial futures.

Q3

Cyber & data security
Bi-annual update of most significant threats, enhancements to controls implemented in 2022 and intended key areas of focus in 2023.

Third Party Risk Management
Supply chain overview; Phoenix's supplier Management model; life cycle and risk Management; Management reporting and escalation; supplier classification and segmentation.

Solvency II Reforms
Key objectives of PRA and HMT consultations and key messages underpinning response from Phoenix, BPA pricing impacts, balance sheet impacts and next steps.

Q4

Sustainable supply chain & operations
ESG supply chain strategy, its evolution and standards; operational climate and environmental strategy; operational carbon emissions; supply chain emissions; and the Science Based Target initiative.

Consumer Duty Programme
Background of the new consumer duty and FCA proposals; gap analysis including recommendations and observations; strategic issues; next steps and top priorities for the programme.

Internal Model
Building on previous Board education sessions and the approach used to calculate Solvency Capital Requirements and demonstrate effective risk Management and decision making.

Committee deep dives and education sessions

Q1

Sustainability Committee:
- Diversity and inclusion strategy
- Stewardship code and proxy voting policy

Q2

Sustainability Committee:
- Social and economic impact of increased longevity for UK society

Audit Committee:
- IFRS 17 Methodology
- IFRS 17 Impact assessment

Remuneration Committee:
- Remuneration policy review

Q3

Sustainability Committee:
- Financial inclusion
- SBTi targets

Audit Committee:
- Solvency II regime reforms

Risk Committee:
- Solvency II regime reforms

Remuneration Committee:
- Directors' remuneration policy
- Wider remuneration review of remuneration structure and practices

Q4

Sustainability Committee:
- Culture & values

Audit Committee:
- IFRS 17 transition balance sheet

Remuneration Committee:
- Investor and proxy guidelines and remuneration principles

Audit Committee report

Q&A

with the Audit Committee Chair, Katie Murray

How did you navigate the handover process?
I was appointed on 1 April 2022 to the Board and on 1 September as Chair of the Audit Committee ('Committee'). I would like to thank the Board for their support and Alastair Barbour for such a smooth transition and handover allowing me to assume the role of Chair of the Committee.

What were the key activities of the Committee during 2022?
Financial reporting continues to be a key focus alongside ensuring that the internal control environment remains robust as the Group delivers its strategic agenda whilst navigating volatile economic conditions. Through our calendar of scheduled meetings we actively engage with Management and the risk and internal audit functions to ensure that the Group's financial results and accompanying disclosures are accurate, fair, balanced and understandable. Underpinning this, the Committee has continued to monitor the control environment through regular reporting of the Internal Control Self Assessment which provides an important level of assurance. The Committee is responsible for monitoring the impacts of new governance and financial reporting requirements for the Group, which during 2022 included oversight of the implementation of the new accounting standard IFRS 17, updates on the reform of Solvency II rules and the Department for Business & Trade proposals on changes to the audit regime and corporate transparency.

What challenges has the Committee faced during 2022?
The volatile economic environment has produced a variety of challenges for Group, and the Committee has played a key role in ensuring that the impact on the Group's financial results and internal control environment has been carefully monitored and managed. The year has also seen the further growth of the Group and with an increased number of initiatives being undertaken in support of the Group's Strategy, clear oversight of the Risk Management Framework has been required, especially when considering the prioritisation of resources across the various projects.

What do you see as the Committee's key areas of focus in 2023?
To ensure the implementation of IFRS 17 reporting processes and a safe landing of the first Group results under the new standard. The Committee will also consider the reporting and control implications of the inclusion of the acquired Sun Life of Canada UK business for the first time within the Group financial results, and will continue to monitor the impacts of anticipated developments in the regimes for financial reporting, corporate governance and audit.

Role of the Committee
To assist the Board by establishing, reviewing and monitoring the Group's financial reporting, internal controls framework, internal audit framework and changes in regulatory requirements. The Committee's terms of reference set out the responsibilities and duties of the Committee, which are reviewed and approved annually, are available on the Phoenix Group website.

Members attendance at Committee meetings (actual/maximum eligibility)

Alastair Barbour[1]	7/7
Katie Murray[2]	3/4
Karen Green[3]	8/9
John Pollock[4]	9/9
Nicholas Shott	9/9

1 Alastair Barbour stepped down as Chair of the Committee on 1 September 2022 on his appointment as Chair of the Board
2 Katie Murray joined the Board on 1 April 2022 and became Chair of the Committee on 1 September. Katie was unable to attend a meeting due to pre-existing travel commitments arranged prior to joining Phoenix.
3 Karen Green was unable to attend a meeting due to illness.
4 John Pollock is Chair of the Risk Committee and member of the Committee

2022 highlights
- Recommended approval of the Company's 2022 Annual Report and 2022 Interim Financial Statements.
- Approval of audit plans (external and internal for 2022)
- Monitored the progress of the IFRS 17 implementation
- Continued oversight on government reforms relating to Solvency II and Department for Business & Trade
- Reviewed and monitored the effectiveness and independence of the Company's External Auditors.
- Reviewed the adequacy of the control environment in light of economic volatility

Committee composition
The Board confirms that all members of the Committee are Independent Non-Executive Directors and have been appointed to the Committee based on their individual finance and commercial experience. The Board is satisfied that Katie Murray, as Chair of the Committee has recent and relevant financial experience to chair this Committee through her current Chief Financial Officer role at Natwest plc and career experience. The Committee, as a whole, has financial and commercial competence relevant to the insurance sector in which the Group operates. Further information on the skills, expertise and experience of the Committee members can be found on pages 74 to 76.

Committee meetings
The Committee met nine times during 2022. Meetings are attended by the Chair of the Risk Committee (who is also a member of the 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 Group Chief Executive Officer. The 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 Committee acts independently of Management, and engages closely with both the Group Risk Committee and the Phoenix Life Companies Board Audit Committee to ensure there is a good understanding of the work undertaken by each and enable efficient communication between the committees.

During the year, the Committee has also met jointly with the Risk Committee and/or Sustainability Committees to consider and recommend certain matters to the Board. This collaborative form of governance has enabled greater agility and effectiveness around decision making across different committees. Examples of the collaborative and integrated approach to governance is shown in the table at the top of the page.

Examples of collaborative governance: Audit, Risk & Sustainability Committees (February 2022)	Audit & Risk Committees (April 2022)
• Year end 2021 reporting, including proposed 2021 final dividend, going concern and investor presentation • Sustainability related reporting and disclosures, including, TCFD update/Climate report and Sustainability report	• SFCR approval (including Risk Disclosures in Solvency II Pillar III Reporting) • Interim year reporting and interim dividend • IFRS17 education sessions

Activities during 2022
2022 has seen a number of challenges for the Group, reflective of the volatile economic and inflationary backdrop, as well as the ongoing impact of the Russia/Ukraine conflict.

These events have had a significant impact on the financial markets which in turn has implications for the Group's financial position and operating environment. As a result, one of the key areas of focus of the Committee has been to ensure that careful monitoring and oversight of the financials of the Group has occurred and the control environment has continued to work effectively. The support of the Risk and Internal Audit functions as well as the independent review by the External Auditors has provided the Committee with further assurance as to the integrity of the Company's financial reporting and the soundness of its internal controls.

The following were the key areas of focus for the Audit Committee during 2022 and to the date of this report:

- Receiving and reviewing the Group's external financial reporting, and recommending their approval to the Board.
- Received and reviewed the Group's sustainability and climate reporting.
- Monitoring the overall integrity of 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.
- Receiving regular updates on the implementation of IFRS 17 and reviewing key judgements and accounting policy decisions.
- Monitoring the change activities within the Finance and Actuarial function to ensure that the resource framework aligns with the strategic direction of the Group.
- Oversight of activities of subsidiary audit committees through a review of minutes, discussions between the Chairs of the Committee and subsidiary audit committees, and the Committee Chair's attendance at the Phoenix Life Companies Board Audit Committee on an occasional basis, as well as all Phoenix Life Companies Board Audit Committee papers. This oversight has been enhanced further through the attendance at the Committee's meetings, at least annually, by the Chair of the Phoenix Life Companies Board Audit Committee.

External reporting and controls
Throughout 2022 and up to the date of this report, the Committee has carried out the following activities in relation to the Group's external reporting and the effectiveness of its internal controls:

- Reviewed the Company's 2021 and 2022 Annual Report and Accounts, 2022 Interim Financial Statements, and related disclosures recommending their approval to the Board, 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 by 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 page 101. These matters were considered by the Committee to be areas subject to the most significant levels of judgement or estimation, and identified with regard to the key audit

Audit, risk and control continued

matters assessed by the Group's External Auditors as set out in their audit opinion on pages 156 to 167. They were assessed by the Committee in conjunction with the External Auditors and on the basis of initial review by the Phoenix Life Companies Board Audit Committee.

- Reviewed the financial forecasts and target setting prepared by Management, supported by the sensitivity analysis on the key assumptions underpinning the forecasts and the impacts of IFRS 17, 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 Line 1 risk and controls reports from Management, Line 2 internal control assessments from Group Risk, and Line 3 internal control environment opinions from Internal Audit and considered the appropriateness of consequential proposed actions.
- 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 outsourced service providers, noting that this was addressed in more detail by the Phoenix Life Companies Board Audit Committee.
- Received dedicated briefings on matters including Business Readiness, Life Finance Change, Taskforce on Climate-related Financial Disclosures reporting and BPA Annuity Buy-Out.
- Through regular briefings during scheduled meetings and a series of additional education sessions, the Committee has overseen the progress of the IFRS 17 implementation project and the preparedness for first time reporting in 2023.
- Reviewed a number of policy, methodology and assumption related matters pertinent to the implementation of IFRS 17, including judgments with regard to the approach to transition and the application of the different measurement models within IFRS 17 to the Group's insurance contracts.
- Considered and approved the disclosures on IFRS 17 in Note A.5 of the IFRS financial statements as appropriate to be included in the 2022 Annual report and accounts.
- Reviewed and approved updates to the Group Tax strategy, Group External Auditor policy and the Group Liquidity & Funding policy.

Committee effectiveness

In 2022, the Committee carried out an internal effectiveness review whereby aside from the members of the Committee, members of Management and regular attendees were also requested to provide feedback. From the review it was concluded that overall the Committee works effectively and focuses on the right issues. In addition, the transition of the Committee Chair from Alastair Barbour to Katie Murray during the year had been a smooth process and the operation of the Committee remains constructive. Further information of the Board evaluation can be found on page 91.

External Auditor

A key part of the role of the Audit Committee is the review and oversight of the work of the Group's External Auditor. EY LLP ('EY') is the Group's External Auditor. The External Auditor partner attended all Committee meetings during 2022 and to the date of this report, presenting reports on the external audit process, 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. Where necessary the External Auditor challenged Management's view on certain assumptions and reporting requirements which were reported to and discussed with the Committee.

The Committee reviewed and discussed various reports from the External Auditor throughout 2022, including the 2022 Audit Plan, progress reports against that plan, and a report on their audit procedures on the 2022 annual IFRS and Solvency II results, and their interim review of the half year 2022 IFRS results. The Committee considered throughout 2022 and for the 2022 audit, the effectiveness, engagement and remuneration of the current External Auditors.

Assessment of the effectiveness of the external audit process

Overall, the Committee has concluded that EY have carried out their audit for 2022 effectively. Effectiveness of the external audit process has been considered throughout the year by the Committee and included the following activities:

- a 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 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, Phoenix Life Companies Directors as well as members of the Committee;
- meeting privately with EY to discuss in depth their approach to quality assurance and internal assurance processes across the audit firm that ensure the quality of the audit service;
- consideration of the findings of external evaluations of EY, notably the findings from the Financial Reporting Council's Audit Quality Inspection Report; and
- consideration of the findings of EY's 'Transparency and Report and Audit Quality Report' which outlines their governance and risk Management practices.

Independence of the External Auditor

The External Auditor's independence was reviewed and monitored against the Group's External Auditor policy, including their provision of non-audit services. This included an assessment of their independence and a review of services provided by EY during the 2021 and 2022 financial years. The Committee is satisfied that EY are fully independent from Management and free from conflicts of interest.

Statement of compliance – audit partner rotation and tender of external audit

The Group's External Auditor policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every 5 years. EY have served as auditor to the Company since December 2018.

Under the Audit Ethical Standards, signing audit partners for public interest entities should retain the role for up to five years. In order to safeguard the quality of the audit, in light of the Group's extensive change programme, the Committee requested a tenure extension for Stuart Wilson as a result of reaching his fifth year of tenure associated with the Group following completion of the 2021 audit. For two of those years Stuart Wilson acted as audit partner for Phoenix Life Limited, with the remainder as lead audit partner for the Phoenix Group. Such an extension is permissible under the Audit Ethical Standards for a maximum of two additional years. EY confirmed that Stuart Wilson is able to continue as lead audit engagement partner for the 2022 financial period which was approved by shareholders at the 2022 AGM. In view of the Group's extensive change programme and the forthcoming acquisition of Sun Life of Canada UK, a request for a further extension to allow Stuart Wilson to continue as lead audit partner for the Group for the 2023 audit has been made and confirmed by EY. We note that 2023 will be the last year of EY's appointment as Group auditors. EY have confirmed their willingness to continue in office for 2023 and shareholders' approval will be sought at the AGM on 4 May 2023.

As announced, the Committee concluded an audit tender process in 2021 resulting in KPMP LLP being appointed as the Group's External Auditors commencing for the financial period starting 1 January 2024. A transition process will be undertaken in 2023 including regular review meetings with Management, EY, Internal Audit and Committee members, prior to their formal appointment at the AGM in 2024.

The Committee confirms that it has complied with the provision of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use Of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2022.

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. During the year, the Committee has continued to monitor matters which could impair the objectivity and independence of the external audit and is satisfied that there are no circumstances that could affect the independence or objectivity of the auditors.

External Auditor fees

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Committee to safeguard the auditor's objectivity and independence. 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.

	2022 £m	2021 £m	2020 £m
Non-audit fees	–	–	0.5
Audit fees	15.5	11.6	11.7
Audit related fees	2.4	2.3	2.3
Total	17.9	13.9	14.5
Ratio of non-audit:audit fees	4%	6%	9%
Rolling 3 year average audit fee	6%	8%	17%

In 2022, total fees of £17.9 million were paid to EY. Of this amount £15.5 million related to statutory audit fees of the parent and its subsidiaries, with a further £1.8 million incurred in relation to services provided pursuant to legal or regulatory requirements.

The remaining fees of £0.6 million relate to other services including review of the Group's interim report, sustainability report and provision of assurance services over the internal controls relevant to financial reporting operating within certain of the Group's outsourced services providers. This gives rise to a non-audit to audit fee ratio under the EU Directive and Regulations of 4% for the 2022 year, and 6% based on a three year average audit fee. This lies well within the limits prescribed in the Group's policy.

In light of the above, the Committee is satisfied that the non-audit services performed during 2022 have not impaired the independence of EY in its role as External Auditor.

Internal audit

During 2022, the Committee continued to receive regular updates from the Head of Internal Audit on all Internal Audit-related matters. This included the annual update of the Group Internal Audit Charter and the Group Internal Audit Plan, both of which were approved as well as developments in the use of data analytical techniques to support and enhance Internal Audit's operations. The Committee received regular reports to monitor progress against the plan and are satisfied that the internal audit function has adequate resources to deliver the in-year plan. The Committee also reviewed the Internal Audit control environment opinion which included Internal Audit's view of the Risk Management Framework across the Group at both the half year and full year end in 2022.

Audit, risk and control continued

Internal controls
The Committee, alongside the Risk Committee, is responsible for supporting the Board in ensuring a robust system of internal control and risk Management 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 considers bi-annual control reports from Lines 1 and Line 2 (Risk) as well as the annual Line 3 (Internal Audit) internal control environment opinion. These reports provide assessments of the design and operation of the control environment across the Group's risk universe.

The Committee throughout 2022 reviewed the internal control environment regularly and challenged Management to ensure clear rectification plans were incorporated where there were any weaknesses or failings reported. In 2022, this included a focus on the Group's control environment with regard to the hedging of interest rate risks. In light of the extent of the economic volatility experienced in the period, the Committee considered Management's findings and proposed enhancements that will ensure the control environment in this regard appropriately reflects the complexity of the Group's operations and the macro-economic outlook. The Committee will continue to monitor closely the internal control framework throughout 2023 to ensure it is appropriate as the Company continues to deliver on its strategic aims.

Whistleblowing
Bi-annually, the Committee receives formal updates from the Group's General Counsel on whistleblowing activities and the operation of our processes to enable confidential reporting. If necessary, involvement in the assessment and resolution of individual matters raised in accordance with our established policy. Whistleblowing arrangements within the Group as well as any whistleblowing activity where an employee raised concerns, in confidence, about any possible improprieties.

During 2022 there were a total of 18 notifications reported to the Speak-Up Office of which five were triaged as "whistleblows", 11 notifications related to people policy matters and two customer complaints were notified using the system. Of the five Speak Up matters, one remains currently open and under investigation. For the others, no material wrongdoing or control failures were found, however on-going oversight/monitoring has been put in place.

Climate change
Sustainability is a significant area of focus for the Group. The Committee has a key oversight role of climate-related reporting including TCFD and other sustainability disclosures. Regular updates are received from our Sustainability team on target setting and disclosure requirements. The Committee works with other committees to ensure our reporting is aligned with strategy and regulatory requirements. There will be continued focus on ESG in 2023 with regular updates being provided on the Group's Net Zero Transition Plan and approach to the implementation of TNFD as well as updates on regulatory disclosures.

FRC review
During the year, the Company received a letter from the FRC's Corporate Reporting Review team requesting information in relation to their review of the 2021 financial statements. The request was for provision of quantitative details of the significant unobservable inputs used to measure the fair value of assets held at level 3 in the fair value hierarchy. The FRC Review team was satisfied with the response from the Company and the proposed enhancements to disclosures which have been reflected in the 2022 IFRS financial statements. The scope of the review by the FRC was limited to reviewing the 2021 Annual Report to consider compliance with reporting requirements and does not provide assurance that the report and accounts are correct in all material respects. Letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accept no liability on them by the Group or any third party, including but not limited to investors and shareholders.

IFRS 17 implementation
During 2022, Management provided the Committee with regular updates regarding its progress with the implementation of IFRS 17 and its impact on the financial statements in relation to insurance contracts, that came into effect from 1 January 2023. The Committee has held sessions dedicated to IFRS 17, where there has been discussion of the judgements in methodology, the financial impacts and the controls around the transformation programme. Transition to IFRS 17 will continue to receive continuous attention from the Committee through 2023. This will include oversight of the control environment as it relates to the transfer of IFRS 17 into a business as usual production environment, and also relating to the continuing transformation activities as the Group looks to further streamline and automate its reporting under the new standard.

Department for Business & Trade
The Committee continues to receive updates from Management in relation to the ongoing government proposals regarding the Department for Business & Trade reforms on Corporate Governance and Audit. Management continue to monitor FRC announcements and maintain dialogue with external advisers. An internal cross-functional working group has been established to prepare for the changes once published by the FRC.

Audit Committee Standard consultation
Management continue to monitor FRC announcements and the Group issued a supportive response in February to the consultation on a minimum standard for Audit Committees, the requirements of which we were already substantively complying with.

Katie Murray
Chair of the Audit Committee

Significant matters considered by the Committee in relation to the financial statements

Significant matters in relation to the 2022 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 Phoenix Life Companies Board 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, expenses, persistency and policyholder behaviour, as well as economic assumptions. These assumptions and methodologies were debated and challenged by the Phoenix Life Companies Board Audit Committees, prior to their approval, including consideration of the impacts of continued economic volatility, expense inflation and the COVID-19 pandemic. A summary of these papers was presented for oversight review by the Committee, and the Life Companies Board Audit Committees' conclusions were reported to the Committee through minutes of its meeting and a discussion between the Chairs of the committees. The Committee discussed, and questioned Management and EY on, the content of the summary papers and the Phoenix Life Companies Board Audit Committee's conclusions. The Committee considered and debated the basis of valuation for adjustments to actuarial provisions that arise at a consolidated Group level. This included consideration of the results of a detailed review of the Group's maintenance expense assumptions in light of the increased investment in the Group's growth strategy and strategic transformation initiatives. Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed and approved by the Committee. The 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 Phoenix Life Companies Board 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 Phoenix Life Companies Board Audit Committee prior to being approved. This included a review of judgements made in respect of data and inputs driving the valuation of equity release mortgages, assumptions utilised in the valuation of modelled debt securities such as bond spreads, and the impacts of continued economic uncertainty. The valuation information was then presented for oversight review by the Committee who considered and further challenged the information prior to confirmation of the appropriateness of the basis of valuation.
Valuation and 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. This included assessing the potential impact of the risk of climate change. The Committee considered the results of the work performed and confirmed the appropriateness of the conclusions reached.
Provisions	Management presented papers detailing the basis of recognition and measurement of accounting provisions recognised by the Group. The Committee considered the results of the analysis performed, the uncertainties surrounding measurement adopted and confirmed the appropriateness of the conclusions reached.
Adjusted operating profit	The Committee reviewed the allocation of key items to adjusted operating profit to ensure the allocations were in line with the Group's adjusted operating profit framework and consistent with previous practice. The Committee also considered the treatment upon consolidation of the buy in transactions between one of the Group's Life companies and its staff pension schemes and the impact this has had on the IFRS loss for the period. The Committee confirmed the approach to disclosure to explain the resultant movements in the IFRS financial statements and accompanying commentary.
Climate risk	The Committee considered a paper from Management as to the consideration of the effects of climate-related matters on the financial statements and the resultant disclosures.
Assessment of whether the Annual Report and Accounts are fair, balanced and understandable	The 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 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 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. 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.

Risk Committee report

Q&A

with the Risk Committee Chair, John Pollock

What were the key highlights of the Risk Committee activity during 2022?
The Risk Committee ('Committee') has continued to focus on the key risks impacting operational resilience and the control environment, including oversight of capital and liquidity Management in light of market volatility in 2022. Oversight and review of strategic and emerging risks has also been important to ensure that the Group meets it strategic priorities whilst ensuring delivery of appropriate customer outcomes.

What challenges has the Committee faced during 2022?
2022 has been a challenging year for the Group with the economy, customers and colleagues all being impacted by the Ukraine-Russian conflict, the impact of inflation and the Cost of Living crisis and the economic turbulence in autumn 2022. The Committee has continued to monitor our Risk Management Framework ensuring that it remains robust and where necessary enhanced to ensure that the Group's evolving business operating model provides support and delivers for our new and existing customers. The Group's sustainability initiatives (including climate change) and associated customer and conduct risks have remained high on the agenda. Remote working and the Cost of Living crisis have been key features of the operating model this year and emphasis has been placed on colleagues' well-being and ensuring that the risk culture remains strong and embedded in managing internal risk and internal controls. There will be continued focus by the Committee on ensuring these key challenges are monitored going forward into 2023.

How has the Committee approached the Group's risk appetite monitoring during 2022?
The Group's risk appetite framework comprises of six risk appetite statements that are adopted by the Group. The Committee receives and regularly reviews the consolidated risk report which provides a view of the overall principal risks, risk environment, risk profile and assessment against the risk appetite.

What do you see as the Committee's key areas of focus in 2023?
The Committee will continue to focus on the application of the Risk Management Framework, taking into account the strategic direction and priorities for the Group throughout 2023 as well as the changing economic environment resulting from the macro economic impact from the Ukraine-Russian conflict. In addition, the Committee will continue to monitor the impacts and associated risks arising from the regulatory landscape, including oversight of risks associated with the implementation of IFRS 17,climate change and sustainability, with a particular focus on consideration of emerging risks.

How has the Committee monitored the Group's Operational Resilience during the year?
We receive regular updates from the Group Chief Risk Officer ('CRO') and the Chief Operating Officer in respect of the Group's operational resilience. The Group's scenario and stress testing programme is regularly reviewed by the Committee to also help identify operational resilience vulnerabilities and drive improvement where weaknesses are found. Our Group's Recovery and Resolution Plan was considered by the Committee during the year and adds a further layer to the robustness of the framework.

Read more on Our Risk Management Framework on pages 52 to 55 of the Strategic Report →

Read more on Principal risks & uncertainties on pages 56 to 67 of the Strategic Report →

Members attendance at Risk Committee meetings (actual/maximum eligibility)

Members	Attendance (actual/ maximum eligibility)
John Pollock (Chair)	9/9
Alastair Barbour[1,3]	7/7
Belinda Richards[1]	7/9
Kory Sorenson[1]	8/9
Maggie Semple[2]	2/2
Wendy Mayall[4]	9/9

1 Belinda Richards was unable to attend two meetings of the Risk Committee due to a scheduling conflict and delayed travel. Kory Sorenson was unable to attend a meeting due to a scheduling conflict.
2 Maggie Semple became a member of the Committee on 1 September 2022.
3 Alastair Barbour stepped down as a member of the Committee on 1 September 2022 on assuming the role of Board Chair.
4 Wendy Mayall retired from the Board on 31 December 2022.

2022 highlights

- Monitored the Group's risk appetite.
- Reviewed the Group's annual ORSA report.
- Reviewed and approved the Risk Management strategy.
- Considered and discussed the implications of the Ukraine/Russia conflict and associated risks.
- Oversight of liquidity and capital Management in the context of significant market volatility.
- Reviewed the 2022 Group Annual Operating Plan, considering the extent to which it supports the delivery of Group strategy.
- Considered enhancements arising from an external review to further strengthen the Internal Control Framework, including controls in respect of liquidity Management and hedging.

The role of the Committee
The role of the 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.

Committee meetings
The Committee met formally nine times in 2022 and an additional four meetings were held. The Committee is comprised of four Independent NEDs.

The majority of the Committee's meetings were attended by the Chair of the Audit Committee which allows the review of internal control effectiveness to be managed through collaborative working and oversight.

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 and reviewed on annual basis to ensure that they remain appropriate.

The Chair of the Phoenix Life Companies Board Risk Committees and Model Governance Committee is a regular attendee to the Committee's meetings and provides members with regular updates on the risk matters pertinent to relevant subsidiaries and the matters being dealt with at the Model Governance Committee. The Chair of the Phoenix Life Companies Board Investment Committee, also periodically attends the Committee meetings to provide key updates, which helps to facilitate discussions relating to investment risk.

The CRO has full access to the Chair and the Committee and attends all Committee meetings. The Committee receives frequent reporting from the CRO and Group risk function on consolidated risk matters affecting Phoenix including risk profile assessments and emerging risks.

Other regular attendees to the Committee include the Group Chief Actuary, Group Chief Financial Officer, the Chief Executives of the Phoenix Life Companies, the General Counsel and the Group Head of Internal Audit.

The evaluation of the performance of the Committee during 2022 was an internally facilitated review. The conclusions demonstrate that the Committee continues to operate effectively, has the appropriate skills set and structure with good interaction between Group and the Phoenix Life Companies Board Risk Committee. Further information on the internal review can be found on page 91.

Risk Committee's principal activities during 2022
In addition to the key activities discussed in 2022, the Committee also:

- Considered and recommended Terms of Reference for the Committee.
- Reviewed Conflicts of Interest registers.
- Reviewed and approved the principal risks disclosures in the 2021 Annual report.
- Considered and recommended the scenario analysis and risk Management content of the TCFD report.
- Reviewed the risks associated with the acquisition of Sun Life of Canada UK in light of due diligence findings, acquisition impact assessments and the report on the acquisition from the CRO.
- Received updates on status of regulatory relationships.
- Reviewed adherence to the Group Risk Management Framework ('RMF') and considered the appropriateness of the Group's overall risk appetite statements.
- Reviewed and approved changes to the Liquidity and Funding Policy.
- Received a number of updates which covered cyber risk, phishing, financial risks arising from climate change, customer and conduct risk, and emerging risks and opportunities that could impact the Group.
- Approved the Group market risk appetite limits, taking into account the affordability of the market risk inherent in the 2022 Annual Operating Plan.

- Considered the Group's risk appetite and approved the updated capital risk appetite framework.
- Monitored compliance with, and approved the updates to the Group's principal risk policies, satisfying itself that action plans to address policy breaches 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 and discussed the operation of the RMF and approved the updated RMF Policy. Details of the RMF, for which the Committee has oversight, are provided in the Risk Management section of the Strategic Report on pages 52 to 55.
- Considered risks, issues and matters that are escalated from the Phoenix Life Companies Board Risk Committee.
- Reviewed reverse stress-testing analysis results, 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 awards.
- Monitored and received regular updates on the status of the current relationship with the regulators including PRA, FCA, TPR and Central Bank of Ireland.
- Monitored the risk culture within the Group, including the results of the Group Audit Annual Risk Culture Assessment across four categories; people and purpose, governance, customers and leadership.
- Discussed and approved the process and governance related to acquisition strategy for smaller M&A activity.
- Reviewed and discussed the performance across Change, Delivery, Schedule Management and Operational Capacity for the Group.

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 companies' 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 2022, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC. The assessment for 2022 was presented to the Board, following review by both Group Audit and Risk Committees. 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.

John Pollock
Chair of the Risk Committee

Sustainability Committee report

Q&A

with the Sustainability Committee Chair, Karen Green

What were the key highlights of the Sustainability Committee's activity during 2022?

Phoenix has set a clear strategic ambition to be a leader in sustainability. As such, the Sustainability Committee (the 'Committee') has continued to focus on the development of its sustainability strategy including setting progressive sustainability KPIs. The benchmarking and materiality review carried out in the year enables the Committee to remain focussed on prioritising Environmental, Social and Governance ('ESG') themes over the next few years as well as building a view of progress by peers and in the wider financial services sector in sustainability matters. The Committee has continued to monitor and challenge the development of the Group's Net Zero Transition Plan which it intends to publish in 2023.

How has the Committee approached monitoring the Group's culture during 2022?

Phoenix has a clear people vision, to make Phoenix the best place colleagues have ever worked. In order to ensure tangible and measurable progress in this area, the Committee receives regular updates from the Group HR Director on the Group's people strategy and the progress of key initiatives including; diversity and inclusion strategy, leadership capability, reward, ways of working and colleague engagement. The Committee also received regular briefings on engagement scores and updates on our core people and culture metrics. These insights were further supplemented by regular updates from the Designated Non-Executive Director for Workforce Engagement enabling the Committee as a whole to understand the views of colleagues and impact of engagement activities.

How have Committee members increased their knowledge and expertise of sustainability related matters?

In addition to regular briefings from the Chief Sustainability Officer, Group HR Director and Director of Corporate Affairs and Investor Relations, the Committee has held a number of deep dives and external perspective sessions to enable Committee members to deepen their understanding of sustainability related matters. Topics covered during the year by external speakers included: building engagement and awareness around sustainable focussed pension (Make My Money Matter), stewardship (Hermes EOS) and financial inclusion (Toynbee Hall).

What do you see as the Committee's key areas of focus in 2023?

The Committee will continue to focus on driving the Group's ambition to be a leader in sustainability and ensuring tangible, measurable progress against the Group's sustainability strategy. The Committee will remain focussed on monitoring the development and progress of the Groups' Net Zero Transition plan ahead of final publication and ensuring oversight of progress with TNFD. The Committee will also continue to monitor developments in sustainability and emerging practice, and provide oversight of regulatory compliance and actions being taken to enhance the Group's contribution to a more sustainable world.

Members attendance at Committee meetings (actual/maximum eligibility)

Karen Green (Chair)[1]	5/6
Maggie Semple[2]	2/2
Nicholas Shott	6/6
Kory Sorenson	6/6
Mike Tumilty[3]	3/3
Wendy Mayall[4]	6/6

1 Karen Green was unable to attend a meeting due to illness, this meeting was chaired by Nicholas Shott
2 Maggie Semple joined the Committee on 1 September 2022
3 Mike Tumilty retired from the Board on 30 June 2022.
4 Wendy Mayall retired from the Board on 31 December 2022

2022 highlights

- Review and recommendation of the Group's 2022 sustainability strategy.
- Approval of the Group's 2022 Sustainability KPIs.
- Approval of the Group's Science Based Targets Initiative ('SBTi') targets.
- Review of the Group's people strategy and monitoring of the Group's culture through regular people and culture Management dashboards.
- Consideration of feedback from the PRA on Phoenix's submission for the Climate Biennial Exploratory Scenarios ('CBES') and review of the Group's round 2 submission (jointly with the Board Risk Committee).
- Oversight of the pilot implementation of mid-life MOT, a new initiative intended to help colleagues aged 45 and over to plan for their futures, and consideration of the impact on the Group's culture.
- Review and recommendation of he Group's 2021 Modern Slavery and Human Rights Statement.
- Education and external perspectives sessions undertaken, covering topics of stewardship, financial inclusion, culture, SBTi target setting and the Group's Net Zero Transition Plan.
- Deep dive sessions covering: the Group's D&I Strategy, the strategy and activities of Phoenix Insights (see pages 24 to 25), the Group's approach to Stewardship and Financial Inclusion.
- Review of the Committee's effectiveness and terms of reference.
- Updates from the Group's Designated Non-Executive for Workforce Engagement to support two-way engagement between colleagues and the Board.

Sustainability governance continued

Role of the Committee

The Committee, which met six times during 2022, is responsible for assisting the Board in overseeing the Group's sustainability strategy and related activity, and approach to ESG matters. The Committee met jointly with the Risk Committee to discuss Phoenix's CBES submission and proposed response.

The Committee's duties include:

- ensuring the appropriateness of the Group's sustainability strategy.
- supporting the Board and Board Audit and Risk Committees in respect of the Group's sustainability related reporting (including TCFD reporting).
- reviewing and challenging activities carried out within the Group to monitor alignment with the sustainability strategy, ensuring the embedding thereof.
- keeping sustainability best practice and market insights under review.
- assisting the Board with its oversight of the Group's culture and values.

The Committee's terms of reference are available on the Company's website and are reviewed annually.

The Committee is comprised of four Independent NEDs of the Board, selected to ensure cross-Board Committee membership to facilitate engagement on sustainability matters across the Group's governance framework. This is further supported by attendance of a nominated NED of the Phoenix Life Companies Board as a standing attendee.

Other standing attendees of the Committee include the CEO, Group HR Director, Director of Corporate Affairs and Investor Relations and the Chief Sustainability Officer. During the year, the Chair of the Board regularly attended Committee meetings.

The Committee's activities during 2022 covered all elements of the Group's sustainability strategy which is grouped into three areas of focus: Investing in a sustainable future. Engaging people in better financial futures and Building a leading responsible business. An overview of the Committee's activities is set out on the following page(s):

Key Committee activities	Impact/Outcome
Engaging people in better financial futures	
Financial Inclusion Deep Dive session, considering the ambitions of the Group against external research undertaken and themes from thought leadership on this topic.	Enhanced understanding of the Group's commitment to deliver a financial inclusion strategy during 2022 and to launch a targeted pilot for women aged 40 to 55, as an underserved customer cohort.
Approval of the Group's financial inclusion strategy, as part of the wider sustainability strategy.	Short-term and longer-term goals were set including areas such as: (i) ensuring the Group's colleague offering was comprehensive, (ii) leveraging and scaling customer initiatives across the Group and (iii) launching targeted initiatives for mid-career women aged 40 to 55 as an underserved customer cohort.
Approval of customer related targets and KPIs for 2022.	Strong results were delivered against the 2022 targets (see the Group's Sustainability Report for more detail).
Investing in a sustainable future	
Approval of responsible investment related targets and KPIs for 2022 and monitoring of progress against these commitments during the year.	Management were encouraged to set stretching targets to enable the Group to progress its responsible investment objectives and delivered strong results against those targets (see the Group's Sustainability Report for more detail).
Stewardship Deep Dive session, covering the Group's vision, current commitments and assessment of its strategic asset managers. External presentation on and focused discussion of Stewardship.	Increased understanding of Management actions with respect to the Group's strategy, approach, and governance on stewardship.
Review and consideration of the Group's Net Zero Transition Plan.	Improved clarity on the approach towards and timeline for developing the Net Zero Transition-Plan and delivery of Phoenix's ambitious climate targets.
Review and approval of SBTi targets.	SBTi targets have been set for Phoenix across investments, operations and supply chain.
Building a leading responsible business	
Investing in our people and culture	
Consideration of the Group's 'people vision' ('to make Phoenix the best place any of us have ever worked'), taking into account that diversity, equality and inclusion were key to realising this vision.	Enhanced understanding of the Group's 'people vision' and the importance of diversity, equality, and inclusion in achieving this vision.
Consideration of colleague engagement and culture Management information.	Understanding of colleagues' perspectives in relation to topics such as 'mental well-being', 'flexible working', 'diversity and inclusion' and support offered by the business, and insights into the tone of the Group's culture from the ground up.
Monitoring/oversight of pilot implementation of mid-life MOT, a new colleague initiative intended to help colleagues aged 45 and over to plan for their futures, and consideration of the impact on the culture.	Pilot launch and implementation of mid-life MOT, helping colleagues aged 45 and over to plan for their futures and encouraging them to make decisions to achieve a life of possibilities for themselves.
Received reports from the Designated NED for Workforce Engagement and attendance at the PCRF.	A key element of the two-way engagement process between the Board and colleagues enabling colleagues to express areas of concern and positives directly to members of the Group Board. Further information on the role and activities of the Designated NED for Workforce Engagement is on pages 108 to 109.
Approval of people related targets and KPIs for 2022.	Management delivered strong results against the 2022 targets (see the Group's Sustainability Report for more detail).
Reducing our environmental impact	
Approval of environment targets and KPIs.	Management delivered strong results against the 2022 targets (see the Group's Sustainability Report for more detail).
Decarbonisation targets under the SBTi Process education.	Increased understanding of Science Based Targets and SBTi, progress monitoring mechanisms; and consequences of not meeting the targets.
Working responsibly with Suppliers	
Review of the Group's Modern Slavery and Human Rights Statement for the year ended 31 December 2021, recommended for approval by the Board.	Approval of the Group's statement by the Board, published in August 2022 on the Phoenix website.
Approval of supplier targets and KPIs.	Delivery of strong results against the 2022 targets (see the Group's Sustainability Report for more detail).
Review of the outcomes of the risk assessment to identify suppliers deemed to be high risk for modern slavery.	Direct engagement with suppliers who were deemed to be high risk for modern slavery to mitigate such risks, together with action plans being put in place for relevant service providers.
Supporting our Communities	
Approval of community related targets and KPIs.	Management delivered strong results against the 2022 targets (see the Group's Sustainability Report for more detail).

Committee effectiveness

During the year, the effectiveness of the Committee was considered as part of the annual Board evaluation. Overall, it was concluded that the Committee was operating effectively. Members of the Committee agreed that the meetings are constructive with all members demonstrating a high level of engagement in the topics throughout the year. The agenda remains well balanced with appropriate information and insight and the rolling schedule of education on sustainability related matters and external perspective sessions remains highly valued by the Committee to increase and broaden their knowledge of emerging best practice and topics. It was agreed that further time be added for free form discussion. Further information on the Board evaluation activity can be found on page 91.

Climate change

In addition to the above, the Committee received regular reports, including updates from the Chief Sustainability Officer, relating to the Group's compliance with climate change regulation and other emerging climate change related topics. This included continued progress made on activities aligned to the TCFD recommendations within the Group and a review of the Group's CBES submission content in collaboration with the Board Risk Committee. The Board Risk Committee has monitored the Group's compliance with the PRA's supervisory statement SS3/19, supplementing the Committee's oversight of climate change related activities undertaken by the Group. The PRA's CBES activity resulted in enhanced Committee awareness and understanding of climate change risks and opportunities, and a clearer view of the impact that different climate change scenarios might have on Phoenix, enabling the development of strategies and actions to address the risk of climate change. The Committee has played a vital role in developing the strategic ambition of the Group's Net Zero Transition Plan which is expected to be published in 2023.

The Committee is committed to ensuring the success of the Group's sustainability strategy which plays a key role in the fulfilment of the Group's purpose to help people secure a life of possibilities. The strategy has been developed to align with the Group's enterprise strategy, our values and culture.

Karen Green
Chair of the Sustainability Committee

Workforce engagement

Engagement in action – listening to the colleague voice

Engagement with colleagues is integral to our strategy and vision to be the best company that colleagues have ever worked for. Our colleagues are what enable Phoenix to grow and succeed, and through regular two-way dialogue, the Board seeks to understand the issues that matter most to our colleagues.

Supporting colleagues
2022 has been another year where external factors have created challenges for businesses and for their teams. The aftermath of the COVID-19 pandemic together with the wider economic backdrop and rising rates of inflation have exacerbated challenges that colleagues are facing.

Throughout 2022 we have continued to support our colleagues through these difficult periods. Central to this has been a wide-ranging support package to help colleagues navigate the cost of living challenges, which included giving all colleagues, except our most senior staff, a net £1,000 payment in August, free personalised financial coaching and planning, assistance with cost of parking at work, and assistance with cost of lunch at work. This was in addition to the robust well-being support that is available.

Listening to and understanding colleagues
A strategic priority has been to create a single Phoenix purpose-led culture that colleagues feel connected to. The creation of a new visual identity for Phoenix, and alignment of our customer brands within this, has helped to enhance the sense of belonging for colleagues. Further to this, focus has continued on improving the day-to-day colleague experience through our Diversity, Equity and Inclusion strategy, developed using a data-led approach following the roll out of our 'Who We Are' app in 2021.

Through the monthly colleague engagement survey, the Executive Team and the Board are able to gain insight direct from colleagues into the moments that matter. This insight has enabled us to proactively engage with colleagues and create actions to support our colleagues across the business.

How the Board has engaged with colleagues and supported them throughout 2022
The Board sets the cultural tone for the organisation and seeks to engage with colleagues, both directly and indirectly, throughout the year. The Board recognises that colleagues are central to the achievement of our strategic priorities and the Group's ability to provide customers and wider stakeholders with the best outcomes possible.

I joined as the Designated NED for Workforce Engagement on 1 July 2022, taking over the role from Karen Green. I would like to thank Karen for the seamless handover and support. Between Karen and myself we carried out a programme of virtual and in-person visits and sessions across the business in 2022.

One of our key points of connection with colleagues has been in meeting with the Phoenix Colleague Representation Forum ('PCRF') on a quarterly basis. This is an autonomous forum made up of colleague representatives from each of our functions. Our partnership with the PCRF enables us to have direct, honest and open discussions about strategic topics and how they impact colleagues.

"I was delighted to get the chance to meet Maggie to hear more about her role and what she hoped to do for colleagues. She spent time listening to our experiences and exploring ways she can help Phoenix to innovate and ensure it remains a great place to work. I was impressed by how open the conversation was and her willingness and excitement to meet with colleagues on a regular basis."

Alannah Couper,
Sustainability Manager

After the quarterly meetings, the PCRF representatives share a summary of the meeting and topics discussed with colleagues within their regular PCRF newsletter.

In addition to regularly meeting with the PCRF, we have taken the opportunity to invite wider colleagues to informal meetings to enable them to share what is on their mind in the moment. Often similar themes come up through both channels of engagement, and I am encouraged that colleagues feel that they can be honest in these discussions.

The following key themes were discussed with colleagues throughout the year:

- Pace and volume of change: reflecting a combination of large-scale change projects within the overall change agenda, and the evolution of the Group Operating Model.
- Ways of Working: embedding our hybrid working model to get the best out of people and protect our customers.
- Diversity, Equity & Inclusion: The steps we are taking to enable everyone to be their authentic selves at work.
- Cost of living: supporting colleagues through challenging periods.
- Sustainability agenda: sharing aims to make Phoenix a responsible employer and committed to a sustainability agenda.

In my role as the Designated NED for Workforce Engagement I share regular feedback from my sessions to the Board, which provides additional perspective and insights on colleagues.

Continuing to develop two-way communication enables colleagues to be kept informed of how the Board is engaged in overseeing the development and execution of the Group's strategy and enables the Board to stay connected to what is important to our colleagues and the impact of Board decisions.

Maggie Semple
Designated NED for Workforce Engagement

"The PCRF work with Maggie, and formerly Karen, to share the colleague voice with the Board, giving regular updates of how colleagues feel about the topics that affect their working lives at Phoenix. Meeting at regular points throughout the year keeps the colleague voice relevant and in line with strategic change and evolution. Colleagues feel heard by the Board and that their collective views feed into discussions about their working environment"

PCRF

"The People and Culture agenda is of great importance to the Phoenix Board, and a topic that I regularly speak with them on. We have a vision to make Phoenix the best place any of our colleagues have ever worked, underpinned by four culture ambitions that make Phoenix 'our place' – a place in which everyone dreams to be, a place in which everyone belongs, and where they can be authentic and happy, a place in which everyone leads, and a place in which everyone helps to create.

Our partnership this year with Karen Green and now Maggie Semple meant we have had a true two-way feedback cycle that benefits our colleagues and Phoenix. Karen and Maggie have had regular dialogue with colleagues across Phoenix, across all levels, departments and locations, and have shared insights on the Board's activities at these sessions. Alongside this, our continuous listening approach to colleague engagement means we can understand the areas of focus for our colleagues and respond to the moments that matter through the Executive Committee.

The regular interaction which our colleagues have had with Karen and Maggie throughout 2022 have been open, honest and transparent. This really speaks to the culture that our Board are interested and responsive to the challenges our colleagues may be facing, and that our colleagues know that they are in a safe environment to know that they will be heard if they speak up.

Maggie has joined us from outside of the Financial Services sector, and brings a different perspective to discussions. Her vast experience in matters relating to People, and her unique outlook in this area, will set her up for great success in fulfilling the Designated Workforce Non-Executive Director role."

Sara Thompson,
Group HR Director

Directors' remuneration report

Remuneration Committee Chair
Kory Sorenson

Members
Kory Sorenson (Chair)
Karen Green
Belinda Richards
Nicholas Shott

Key Committee activities in 2022
- Triennial review of Directors' Remuneration Policy
- Incentive outcomes for the 2022 AIP and 2020 LTIP
- Executive Director and Executive Committee salary decisions for 2023
- Metrics for 2023 variable pay schemes to align with our/the Group's evolving business strategy
- Oversight of wider employee remuneration review and cost of living support

Dear Shareholder,
On behalf of the Board and its Remuneration Committee ('Committee'), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022.

Summary of the year
Phoenix has again performed very strongly in 2022, as it executed against its strategic priorities and delivered on its financial framework of cash, resilience and growth. The Group delivered £1.5 billion of cash generation, exceeding our 2022 target range of £1.3 to £1.4 billion. Our Solvency II balance sheet remains resilient with a £4.4 billion SII surplus and a 189% Solvency II shareholder capital coverage ratio. We also delivered c.£1.2 billion of incremental new business long-term cash generation, with the Group's organic growth once again more than offsetting the run-off of our in-force business.

At the recent Capital Markets Day, Phoenix outlined our strategy to deliver sustainable organic growth, through both meeting more of the evolving needs of our existing customers and by acquiring new customers. The Group set its first ever organic growth target of c.£1.5 billion of incremental new business long-term cash generation by 2025, which is a 25% increase on the strong performance in 2022.

Wider workforce and actions to address the cost of living
As the UK's largest long-term savings and retirement business, Phoenix is driven by its core social purpose of helping people secure a life of possibilities as demonstrated by our support for our customers and colleagues impacted by the current macro-economic circumstances. In particular, the Committee supported the decision to make a £1,000 net payment to all permanent colleagues (excluding the Top 100 leaders) in August 2022, and since September 2022, to provide free lunches and parking to all UK colleagues on a temporary basis to support them through the current cost of living challenges. The average salary increase for employees in the next pay round will be 6%, to reflect the emphasis of supporting the wider workforce in the cost of living crisis.

Executive remuneration outcomes for 2022
The incentive outcomes for 2022 reflect the strong financial and non-financial performance and progress on key strategic objectives during the year as described on pages 128 to 130 of this report.

Based on its assessment of the corporate metrics, the Committee determined that the Annual Incentive Plan ('AIP') outcome should be 87.7% of the maximum opportunity. With regard to the achievements under the Strategic Scorecard which represents 20% of the Executive Directors' AIP, the Committee determined outcomes should be 83.0% for Andy Briggs and 74.0% for Rakesh Thakrar. This results in total awards of 86.8% and 85.0% respectively of the maximum bonus opportunity in line with the overall assessment. Further details are set out on pages 129 to 130.

The 2020 Long-Term Incentive Plan ('LTIP') award covering the years 2020–2022 was based on Net Operating Cash Receipts, Return on Shareholder Value, Persistency, and Relative TSR. The overall vesting outcome is 44.3% of the maximum opportunity. Further details are set out on page 131.

As reported in the FY 2020 Directors' Remuneration Report, the Committee reviewed the grant price of the 2020 LTIP (620.5p) compared to the grant price of the 2019 LTIP (700.4p) and was satisfied that no adjustments were required to the awards on grant for windfall gains. The Committee has again reviewed the position ahead of the vesting, taking into account the Phoenix share price as at 28 February 2023 (633.69p) and is satisfied that no windfall gains have occurred and that no adjustment is required on vesting (see page 131).

The resulting single total figure of remuneration for Andy Briggs was £3,058k and for Rakesh Thakrar was £1,555k. Full details are set out on page 127.

The Committee is satisfied that the remuneration outcomes for 2022 are an appropriate reflection of the year's business performance and its trajectory providing strong alignment between pay and performance and with appropriate regard to both the management of risk within our incentives and the broader stakeholder experience.

Amendments to the Directors' Remuneration Policy
This year, the Committee has conducted its triennial review of the current Directors' Remuneration Policy which received a vote in favour of 99.31% at the 2020 AGM. As part of the review, the Committee considered market best practices, the alignment of our existing structures with our strategy and a comparison of both structure and quantum to our peers. Our objective is to ensure that the Group continues to have a remuneration package for Executive Directors which motivates and retains, and is aligned with the Group's strategy and Shareholders' objectives.

Based on the review, the Committee believes that the remuneration structures within the current Policy remain fit for purpose and aligned to business strategy. The core structure will therefore retain the market-standard elements of base salary, benefits, pension aligned to the workforce, AIP and LTIP. The Policy continues to meet UK best practice standards with features such as 50% deferral of AIP outcomes into shares for three years, 2-year post-vesting holding periods for LTIP awards, malus and clawback, and ambitious in-post and post-employment share ownership guidelines. For this reason, the Committee is not intending to make any changes to our remuneration structure.

Satisfied with the core remuneration structure, the Committee analysed the competitiveness of the package in light of the quality of the executive management team, their commitment to success for all stakeholders and the strong progress made in executing their ambitious growth strategy. This is clearly demonstrated in the second consecutive year of strong organic growth delivered in 2022, as well as the cash-funded M&A acquisition of SLF of Canada UK Limited that was announced in August 2022. Both demonstrate that Phoenix is now truly a growing, sustainable business.

The Committee reviewed market data against a sector peer group of FTSE 350 insurers, and a sized-based peer group of FTSE 31–100 companies from all sectors. Phoenix ranked 68 in the FTSE 100 at the time of the exercise, consolidating its position since the last triennial review in 2019 broadly at the median of the FTSE 31–100 peer group in terms of market capitalisation taking into account market volatility.

The data evidenced that the current AIP opportunity for the Group Chief Executive Officer ('CEO') and Group Chief Financial Officer ('CFO') is appreciably behind the median of our peer group, particularly given the quality of the executive team. The Committee is therefore proposing to increase the maximum AIP opportunity under the Policy from 150% to 200% of salary and to implement this opportunity for both Executive Directors from FY 2023. 50% of AIP outcomes will continue to be deferred in shares for three years and malus and clawback provisions will continue to apply. 80% of executive director total remuneration is now subject to the achievement of robust and stretching performance targets aligned with value delivered to shareholders.

To reflect the increased AIP opportunity and to strengthen further the alignment between the Executive Directors and shareholders, the Committee proposes to increase the Share Ownership Guidelines ('SOGs') from 300% to 350% of salary for the CEO and from 250% to 300% of salary for the CFO and for two years post-employment in line with best practice. This positions the SOGs above the upper quartile of comparably sized FTSE companies.

By making these changes, the Committee believes that the Policy will provide an effective framework to ensure that the remuneration structure for the Executive Directors over the next three year period is motivating and creates a strong incentive to deliver sustainable growth and value to shareholders.

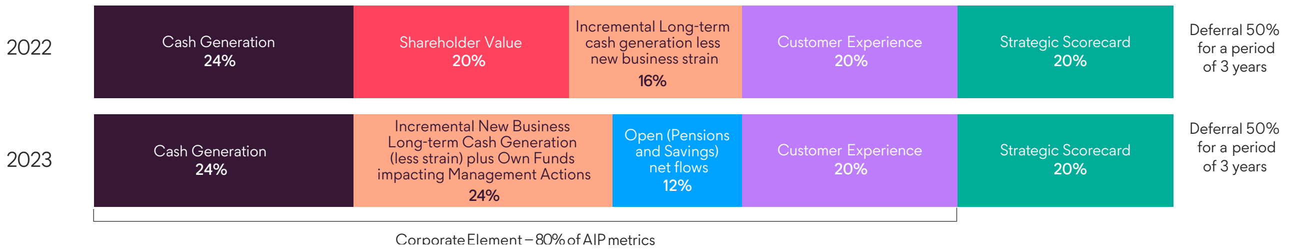
The Committee will continue to review the performance and development of both roles over the next three year policy period. Subject to the Committee's assessment of performance, the Committee may consider further adjustments to incentive levels but these would be within the proposed Policy limits and therefore limited to the LTIP (which has a maximum of 300% of salary). No further increases to the AIP would be possible under the proposed Policy.

Updated metrics to align remuneration with our evolving strategy
For the 2023 AIP, the Committee has decided to replace the existing Shareholder Value metric (25% weighting) by a Net Flows metric for the Group's Pensions and Savings businesses (15% weighting). The new metric will measure growth and in-force business retention within our Open business and is stakeholder focused and aligned to our strategy. The Long-Term Cash Generation from New Business metric has been amended to include Own Funds Management Actions and increased from 20% to 30% weighting. This amended metric will provide a wider assessment of value creation by including Own Funds enhancing management actions. This will provide a holistic view on the sources of future cash generation driving the Group's in-force Long-Term Free Cash metric, and therefore underpinning the sustainability of the dividend.

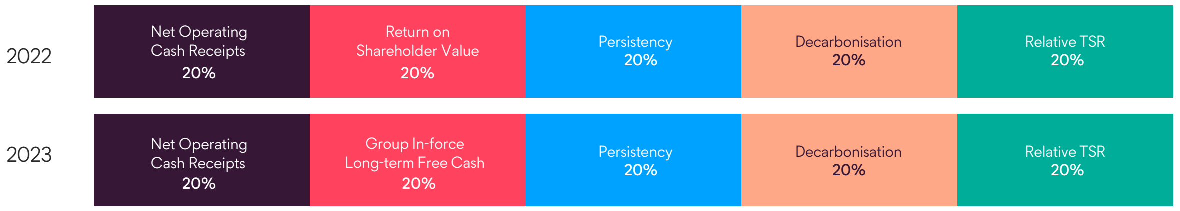
The customer metric relating to the percentage of complaints resolved in eight weeks will be replaced by one relating to the percentage of claims resolved in three days. This new measure is felt to align more closely to the direction of travel for published industry standards and the Consumer Duty, whilst incentivising appropriate behaviours for complaint management in the Group. Resolution of complaints in eight weeks remains an important metric for the Group and continues to be included in the ongoing dashboard of management information.

Directors' remuneration report continued

Annual incentive plan



Long-term incentive plan



For the 2023 LTIP, Group In-force Long-Term Free Cash replaces the existing Return on Shareholder Value metric. This measures the Group's ability to ensure its recurring sources of long-term cash exceed its recurring uses over the performance period and therefore that the Group is delivering sustainable growth. The proposed changes to both the AIP and LTIP metrics support the ambitions set out at the Capital Markets Day in December 2022 and are set out above.

A salary increase of 4% effective from 1 April 2023 is proposed for the Executive Directors, below the average increase for all employees of 6% to reflect the emphasis of supporting the wider workforce in the cost of living crisis as part of our core purpose.

Looking forward

The Board and Committee believe that our proposed Remuneration Policy provides strong alignment between pay and performance and appropriately reflects the experience of our stakeholders. We hope that the revised Remuneration Policy and the implementation of pay as detailed in the Annual Report on Remuneration will meet our shareholders' clear expectations for an appropriate remuneration approach and will be voted for favourably in the resolutions proposed at the 2023 AGM.

2022 marks my last full financial year as Chair of the Remuneration Committee. I will be succeeded as Chair of the Committee by Nicholas Shott, who has been a member of the Remuneration Committee since 20 October 2016 and is well qualified for this role. It has been a privilege to serve as Committee Chair and I am grateful for the support of the Committee members during my tenure as well as the valuable feedback from our shareholders. I wish Nicholas well in his new role.

Kory Sorenson
Remuneration Committee Chair
10 March 2023

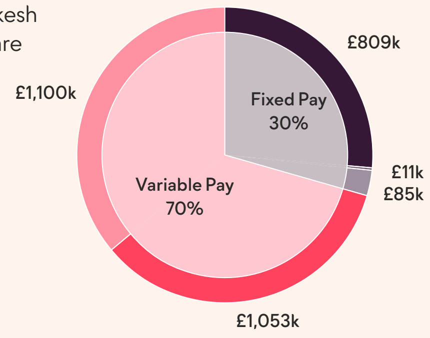
At a glance 2022

Remuneration for 2022

2022 Single Figure

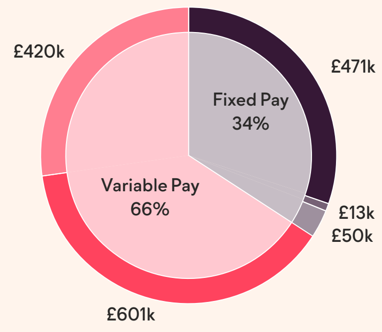
The outcomes under the AIP and LTIP resulted in a single figure outcome for Andy Briggs of £3,058k and for Rakesh Thakrar of £1,555k. Further details are on page 127.

Fixed vs variable pay (% weighting) Group CEO



Fixed Pay	
Salary	27%
Benefits	0%
Pension	3%
Variable Pay	
AIP	34%
LTIP	36%

Fixed vs variable pay (% weighting) Group CFO



Fixed Pay	
Salary	30%
Benefits	1%
Pension	3%
Variable Pay	
AIP	39%
LTIP	27%

Group performance measures

Annual Incentive Plan ('AIP'):

Below we show the target ranges and outturn against the Group metrics within the 2022 AIP. More details of the 2022 AIP can be found on page 128. All metrics align remuneration to the group strategy and were felt by the Committee to be 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 pages 129 to 130.

	Weighting	Threshold for payout	Target	Maximum	Outcome	Formulaic outcome (% of maximum incentive)
Cash generation (£m)	30.0%	1,301	1,401	1,501	1,504	30.0%
Incremental Long-term cash generation less new business strain (£m)	20.0%	580	630	680	890	20.0%
Shareholder value (£m)	25.0%	6,621	6,721	6,921	6,848	20.5%
Customer satisfaction – Telephony (%)	6.3%	90	91	92	92	6.3%
Customer satisfaction – Digital (%)	6.3%	92	94	96	94	3.1%
Complaints resolved in <8 weeks (%)	6.3%	91	93	95	94	4.7%
Service Levels (demand processed) (%)	6.3%	90	92	94	92	3.1%
Total						87.7%

Directors' remuneration report continued

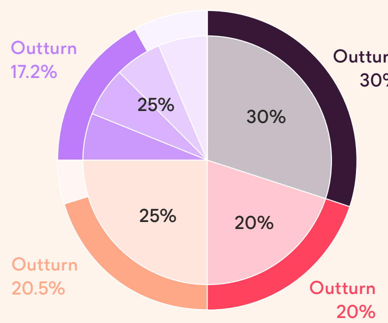
Group performance measures

Long-Term Incentive Plan ('LTIP'):

Below we show outturn against the measures which applied for the 2020 LTIP awards which are reflected in the Single Figure Table on page 127. Net Operating Cash Receipts, Return on Shareholder Value, Persistency and Relative Total Shareholder Return ('TSR') performance are shown over the three-year performance period (financial years 2020, 2021 and 2022). TSR is measured against the constituents of the FTSE 350 (excluding Investment Trusts), with threshold vesting achieved for median (50th percentile) performance and maximum vesting achieved for upper quintile (80th percentile) performance. Further details are shown on page 131.

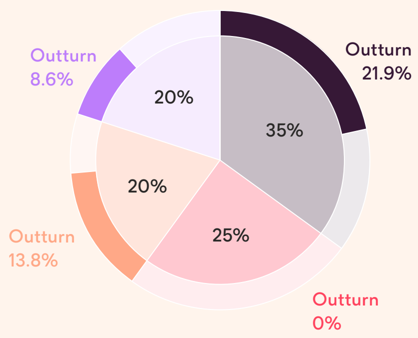
	Weighting	Threshold	Maximum	Outcome	Formulaic outcome (% of maximum award)
Net Operating Cash Receipts (£m)	35.0%	4,411	4,966	4,627	21.9%
Return on Shareholder Value (%)	25.0%	2.0	4.0	(1.8)	0.0%
Persistency (%)	20.0%	8.0	6.5	7.0	13.8%
Relative TSR (percentile)	20.0%	50th	80th	57th	8.6%
Total					44.3%

2022 AIP weighted performance outturn



- Operating Cash generation
- Incremental Long-Term Cash Generation (less New Business strain)
- Shareholder value
- Customer satisfaction – Telephony
- Customer satisfaction – Digital
- Complaints resolved in <8 weeks
- Service Levels (demand processed)

2020 LTIP weighted performance outturn



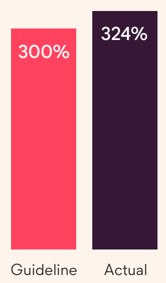
- Net Operating Cash Receipts
- Return on Shareholder Value
- Persistency
- Relative TSR

Share Ownership Guidelines ('SOGs')

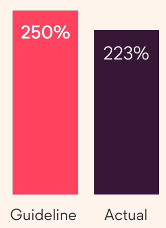
A significant proportion of executive remuneration is delivered in shares which are released over a period of five years. In combination with our shareholding guidelines, this aligns Executive Directors with shareholders over the long-term. As at 31 December 2022, shareholdings for Andy Briggs and Rakesh Thakrar are shown below.

Further details on shareholding guidelines, including post-cessation requirements are included in the Remuneration Policy on page 121. As set out on page 137 the SOGs are increasing from 2023 under the new Remuneration Policy.

Group CEO
Andy Briggs



Group CFO
Rakesh Thakrar



Shareholding Guidelines percentage shown for Andy Briggs and Rakesh Thakrar includes the value of shares held based on a share price of £6.086 (as at close of business on 30 December 2022). 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.

At a glance 2023

Alignment to strategy

This table demonstrates how each of our performance measures for AIP and LTIP align with the Group's strategic priorities.

Performance measures 2023

	2023 Corporate metrics	Optimise our in-force business	Enhance our operating model and culture	Grow organically and through M&A
AIP	Cash Generation	✓	–	✓
	Incremental New Business Long-Term Cash Generation (less strain) plus Own Funds impacting Management Actions	–	–	✓
	Open (Pensions and Savings) Net Flows	–	–	✓
	Customer Experience	–	✓	✓
	Strategic Scorecard	✓	✓	✓
LTIP	Net Operating Cash Receipts	✓	–	✓
	Group In-force Long-Term Free Cash	✓	✓	✓
	Decarbonisation – Operations	–	✓	–
	Decarbonisation – Investment Portfolio	✓	–	–
	Persistency	✓	✓	–
	Relative TSR	✓	✓	✓

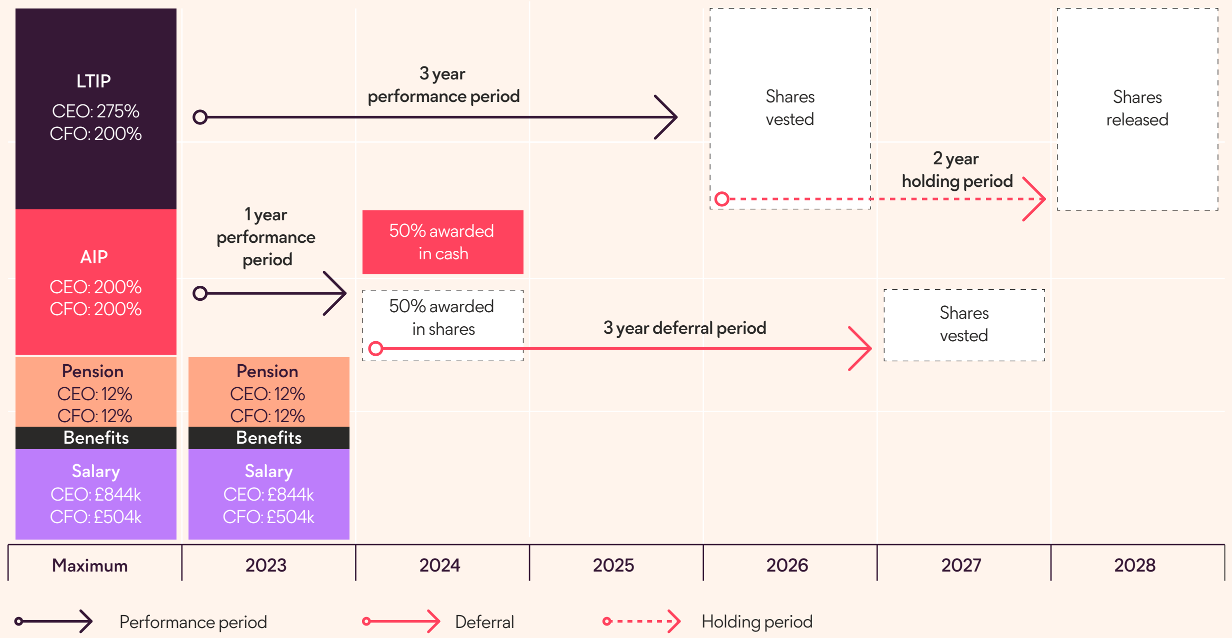
All employees participate in a common incentive plan ensuring consistency of corporate goals and individual performance management.

The Committee reviews the performance measures and targets of the AIP and LTIP each year to ensure these are aligned to Phoenix's strategic priorities, are appropriately challenging, support the Company's culture and values, and create value for stakeholders.

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, over 63% of the Group CEO's maximum remuneration is delivered in shares.

Over 63% of total maximum remuneration for Group CEO is paid in shares



Directors' remuneration report continued

Alignment to wider workforce
The Committee considers a range of factors when setting the remuneration for Executive Directors, one of which is the alignment with remuneration practices across the wider workforce. Phoenix provides colleagues across the Group with a competitive reward package with details of each element included in the table below. Further details on wider workforce pay are shown on page 140.

	Executive Directors & Executive Committee	Senior Management	Wider workforce
Salary	Salaries are reviewed annually and increases are typically in line with or less than the wider employee population.		Base salary is the basis for a competitive total reward package for all employees, and these are reviewed annually with engagement from employee representatives. Regular benchmarking exercises are carried out to ensure salaries remain competitive against the market. We are an accredited Living Wage employer and all employees are paid at least the Real Living Wage.
Benefits & Pension	All employees are eligible to participate in our range of flexible benefits and wellbeing initiatives in respective markets. Core benefits include private medical cover, 12 times life assurance cover, group income protection and a range of flexible benefits. The level of core benefits is the same across all grades. Colleagues can participate in a share matching plan under the Phoenix Share Incentive Plan ('SIP') and, in the UK, the Phoenix Sharesave Scheme. All employees are automatically enrolled in the Company's Mastertrust pension scheme with a 10% core contribution and 2% matching contribution (plus salary sacrifice uplift of 10% of the employee contribution). Payment in lieu of contribution, reduced for the impact of employer's NIC is permitted where lifetime or annual limits are reached. Separate occupational pension schemes with varying contribution rates operate in Ireland and Germany.		
Annual Incentive Plan ('AIP')	All permanent and fixed-term employees are eligible to participate in an AIP which is based on Group measures, business unit performance (where applicable) and personal objectives. Malus and clawback provisions apply.		
Deferral	Half of any AIP award is subject to deferral into shares for a three year period. Malus and clawback provisions apply.	One third of any AIP award is subject to deferral into shares for a three year period. Malus and clawback provisions apply.	Any AIP awards over £50k are subject to deferral into shares for a three year period. Deferral is 50% of the excess above £50k in blocks of £5k. Threshold varies slightly in Ireland. Malus and clawback provisions apply.
Long-Term Incentive Plan ('LTIP')	Senior executives participate in a LTIP with a three year performance period and vesting is subject to Group performance outcomes. Measures and targets for long-term incentive plans are consistent for all participants and measured over a three year period. Malus and clawback provisions apply.		A number of colleagues with exceptional achievements and value-aligned behaviours during the performance year are considered for a long-term incentive award in the form of Phoenix shares with a vesting period of three years.
Holding period	A two-year holding period after the vesting date also applies for LTIPs.	No holding period.	Not applicable
Shareholding requirements ('SOGs')	Shareholding requirements ensure greater alignment with interests of shareholders. • 350% of salary for Group CEO • 300% of salary for Group CFO • 150% of salary for Executive Committee members	No SOGs required.	Not applicable

How our policy addresses the following factors set out in the UK Corporate Governance Code

Clarity and simplicity
- The reward framework seeks to embed simplicity and transparency in the design and delivery of remuneration. Both the Corporate Element and the Strategic Scorecard relating to the AIP have transparent, measurable metrics.
- We have included diagrams and charts in this 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 123 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.

Proportionality
- A high percentage of rewards are delivered in the form of shares, meaning Executive Directors are strongly aligned with shareholders. Executive Directors are required to hold shares from LTIP awards for two years following vesting which provides focus on sustainable share price growth. Significant deferral levels under the AIP further align remuneration outcomes to shareholders.
- We have increased the share ownership guidelines to 350% for the CEO and 300% for the CFO and have a post-employment shareholding requirement for our Executive Directors to ensure that they are aligned to the long-term performance of the Group.

Predictability
- The range of potential award levels to individual Executive Directors are set out in the scenario chart on page 126 which also demonstrates the impact of potential share price growth by 50% over the three-year performance period until LTIP vesting.

Alignment to culture
- We have engaged with our employees through Peakon (our employee engagement survey), PCRF (our colleague representative forum), our many employee networks, and our Designated Director for Workforce Engagement (see page 108) 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.

The Directors' remuneration policy (the 'Policy')

Subject to approval from shareholders, the 2023 Directors' remuneration policy set out below will be effective from the date of the 2023 AGM. It will apply for a period of three years, until the 2026 AGM, unless a revised Policy is approved by shareholders before then.

Comparing the new Policy with the current Policy
The main features of the 2023 Policy are summarised in the table below. The table also includes details of how the Policy is intended to apply subject to approval by shareholders at the 2023 AGM.

Current	Proposed
Base salary	Base salary
Pension 12% of salary for Group CEO and Group CFO	Pension 12% of salary for Group CEO and Group CFO
Annual Incentive 150% of salary for Group CEO and Group CFO	Annual Incentive 200% of salary for Group CEO and Group CFO
Long-term Incentive 275% of salary for Group CEO 200% of salary for Group CFO	Long-term Incentive 275% of salary for Group CEO 200% of salary for Group CFO
Shareholding Guidelines 300% of salary for Group CEO 250% of salary for Group CFO	Shareholding Guidelines 350% of salary for Group CEO 300% of salary for Group CFO

General policy
The Remuneration Policy for Executive Directors is summarised in the table below along with the policy on the Chair's and the Non-Executive Directors' fees.

Remuneration Principles
- The Company's overall positioning on remuneration for Executive Directors has been set with reference to the provisions of the 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.
- Remuneration is aligned to the long-term success of the Group.
- Remuneration takes account of the risk profile of the Group.
- Remuneration supports a strong pay for performance culture.

Our updated Remuneration Policy benchmarks the total target remuneration for the Executive Directors using appropriate market data sets which are consistent with those used for other roles in the Group.

This section does not form part of the Remuneration Policy and is for information only.

Remuneration policy table

Element and purpose in supporting strategic objectives	Policy and operation	Maximum	Performance measures
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.	• 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.	• Salary levels are specific to the role and individual. • Maximum salary will be the median level of salaries for CEOs in the FTSE31–100 (currently £812,000), 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).	• N/A
Benefits To provide other benefits valued by recipient.	• 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.	• 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. • 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.	• N/A
Pension To provide retirement benefits which keep Phoenix Group competitive within the marketplace and provide for the future of our employees.	• The Group provides a competitive employer sponsored defined contribution pension plan. • All Executive Directors are eligible to participate in the Defined Contribution Pension 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.	• Pension contributions for Executive Directors are aligned with the wider workforce rate which is currently 12% of salary (reduced to 10.6% when taken as cash in lieu of contribution).	• N/A

Directors' remuneration report continued

Element and purpose in supporting strategic objectives	Policy and operation	Maximum	Performance measures
Annual Incentive Plan ('AIP') and Deferred Bonus Share Scheme ('DBSS') To motivate employees and incentivise delivery of annual performance targets aligned to strategy.	• 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. • DBSS awards are typically 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.	• The maximum annual incentive level for an Executive Director is 200% of base salary per annum.	• 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.
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.	• 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 typically 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.	• 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.	• 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 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 in supporting strategic objectives	Policy and operation	Maximum	Performance measures
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.	• Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation.	• 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).	• Consistent with normal practice, such awards are not subject to performance conditions.
Shareholding guidelines To encourage share ownership by the Executive Directors over the long term, including post cessation of employment, and ensure interests are aligned.	• 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 350% of base salary in shares for the CEO and 300% 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.	• N/A	• N/A

Directors' remuneration report continued

Element and purpose in supporting strategic objectives	Policy and operation	Maximum	Performance measures
Chair and Non-Executive Director fees	• The fees paid to the Chair 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 or are a member of 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 Designated Director for Workforce Engagement. • 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 and to reflect the time commitment required.	• The aggregate fees of the Chair 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 or subsidiary company committees.	• 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 an annual incentive plan, 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 a long-term incentive in recognition of exceptional commercial outcomes and is contingent on continued employment.

2. Stating maximum amounts for the Remuneration Policy

The Directors' Remuneration Report ('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 Group Company) 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;
- 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 117 and 120);
- Legacy arrangements – for the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the approval of this Remuneration Policy, for example, those outstanding and unvested incentive awards which have been disclosed to shareholders in previous Remuneration Reports.

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 subject to the limit of £50,000 set out in the policy table.

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.

Directors' remuneration report continued

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 and retain associated fees as long as these are not deemed to interfere with the business of the Group.

Non-Executive Directors

The Non-Executive Directors, including the Chair, 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 Chair). 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 Chair) they would be entitled to a one month's notice period. The Chair, 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.

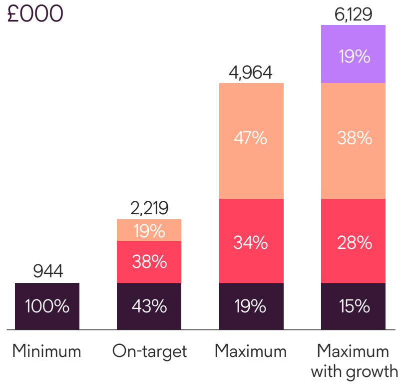
Consistent with previous practice, the Remuneration Committee did not consult with employees in preparing the 2023 Remuneration Policy although has established further employee engagement in accordance with the requirements under the Corporate Governance Code.

Consideration of shareholders' views when shaping the Remuneration policy
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.

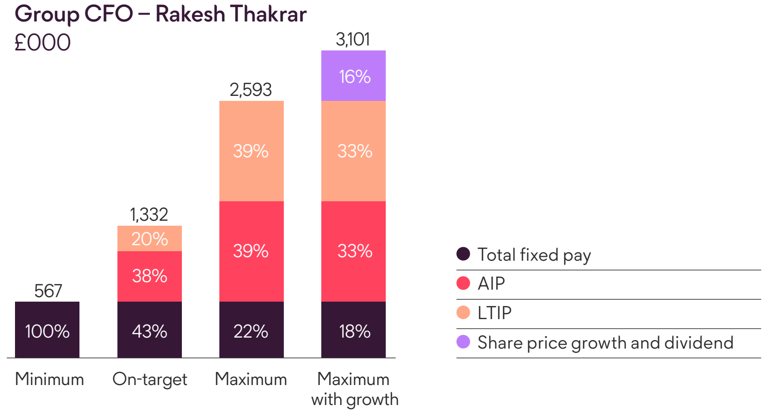
The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Committee consulted with major shareholders prior to submission of this policy, we are pleased to disclose the majority that could provide a prior voting intention were supportive. Areas of discussion were maximum AIP incentive opportunity, FTSE peer pay, the level of stretch in performance targets and the expectation that the percentage increase of Executive Directors' base salary would be lower than that of the wider workforce during the current economic climate.

Potential rewards under various scenarios (£000)
The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy.

Group CEO – Andy Briggs
£000



Group 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	844	10	90	944
Rakesh Thakrar	504	10	53	567

Minimum	Consists of base salary, benefits and pension: • Base salary is the salary to be paid in 2023. • Benefits measured as benefits to be paid in 2023. • Pension measured as the full entitlement of approximately 10.6% 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 (100% of base salary). • LTIP: consists of the threshold level of vesting (50% of base salary for Group CEO and Group CFO). 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 (200% of base salary). • LTIP: assumes maximum vesting of awards and valued as on the date of grant (award of 275% of base salary for Group CEO and 200% of base salary for Group CFO). Sharesave and SIP valued on the same basis as in the on-target row.

Annual report on Remuneration

This section of the Remuneration report sets out the Executive Directors' remuneration for 2022. It 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 2023 AGM on 4 May 2023.

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 to be approved by the shareholders at the 2023 AGM is included in the previous section of this remuneration report.

Implementation report – Audited information single figure table

	Salary/fees[1,2]		Benefits[3]		Pension[4]		Total Fixed Pay		Annual Incentive[5]		Long-term incentives		Total Variable Pay		Total	
£000	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022[6]	2021[7] (restated)	2022	2021	2022	2021[7] (restated)
Executive Directors																
Andy Briggs	**809**	800	**11**	11	**85**	84	**905**	895	**1,053**	936	**1,100**	–	**2,153**	936	**3,058**	1,831
Rakesh Thakrar	**471**	428	**13**	11	**50**	46	**534**	485	**601**	499	**420**	234	**1,021**	733	**1,555**	1,218

1 Rakesh Thakrar's salary increased to £485k with effect from 1 April 2022. Andy Briggs' salary increased to £812k with effect from 1 April 2022.
2 The Executive Directors are entitled to adjust their salary/benefit combination under flexible benefits arrangements and the figures shown are before individual elections.
3 Benefits for Executive Directors include car allowance, private medical insurance, other taxable allowances, Sharesave and matching shares awarded under the Share Incentive Plan.
4 Executive Directors 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%). No Director participated in a defined benefit pension arrangement in the year and none have any prospective entitlement to a defined benefit pension arrangement.
5 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years and which are subject to continued employment (i.e. 50% of the AIP award for 2022). In 2022 £526,416 of Andy Briggs's incentive payment is subject to three-year deferral delivered in shares (2021: deferral of £468,120), and £300,280 of Rakesh Thakrar's incentive payment is subject to a similar deferral (2021: deferral of £249,350).
6 In accordance with the requirements of the DRR regulations, the 2022 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2020 and which are due to vest on 13 March 2023. This vesting level is at 44.3% reflecting outcomes against the Net Operating Cash Receipts, Return on Shareholder Value, Persistency and Relative TSR performance measures to 31 December 2022 (see page 131). This vesting outcome is then applied to the average share price between 1 October 2022 and 31 December 2022 (570.578p) to produce the estimated long-term incentives figures shown for 2022 in the above table. The assumptions will be trued up for actual share price at the day of vesting in the report for 2023. For Andy Briggs, the disclosed LTIP figure of £1,100k comprises the disclosed LTIP figure of £896,129 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 £204,177.
All values are calculated using the three month average share price to 31 December 2022 (570.578p). For Rakesh Thakrar, the disclosed LTIP figure of £420k comprises the disclosed LTIP figure of £342,157 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 £77,953. All values are calculated using the three month average share price to 31 December 2022 (570.578p). No portion of the awards for Andy or Rakesh related to share price appreciation.
7 For 2019's LTIP awards which are reflected in the 2021 long-term incentives column above, the performance conditions were met as to 78.4% of maximum. The 2021 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 11 March 2022 (626.0p per share) multiplied by the number of shares vesting whereas the equivalent figure within the published 2021 Single Figure Table was an estimate which reflected the average share price between 1 October 2021 and 31 December 2021 (652.406 p per share) and certain assumptions regarding the cumulative value of dividends on the number of shares vesting.

Directors' remuneration report continued

AIP outcomes for 2022 – Audited information

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level of 2022 AIP	Target performance level for 2022 AIP	Maximum performance level for 2022 AIP	Performance level attained for 2022 AIP	% of incentive potential based on Performance Measure	% achieved
Cash Generation (£m)	1,301	1,401	1,501	**1,504**	30.0%	**30.0%**
Incremental Long-Term Cash Generation less New Business Strain (£m)	580	630	680	**890**	20.0%	**20.0%**
Shareholder Value (£m)	6,621	6,721	6,921	**6,848**	25.0%	**20.5%**
Customer Experience						
Customer Satisfaction – Telephony (%)[1]	90%	91%	92%	**92%**	6.3%	**6.3%**
Service Levels (Demand Processed) (%)[2]	90%	92%	94%	**92%**	6.3%	**3.1%**
Customer Satisfaction – Digital (%)[3]	92%	94%	96%	**94%**	6.3%	**3.1%**
Complaints Resolved in < 8 weeks (%)[4]	91%	93%	95%	**94%**	6.3%	**4.7%**
Total					100.00%	**87.7%**

1 Customer satisfaction scores from entities across the Group are combined, each entity currently takes different approaches to measurement. Standard Life 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. For Phoenix Life, the rating is a customer satisfaction score based on the results of a satisfaction survey following telephony interaction managed by Ipsos MORI, 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). ReAssure surveys use the Feedback Ferret solution to ask customers a similar question rated on a scale of 1–5, with 4 or 5 regarded as satisfactory.

2 The percentage of all back office manual workflow completed within service level (services levels vary across entities). Across entities this includes Claims & Servicing, with Standard Life also including new business acquisition.

3 Digital customer satisfaction surveys are offered to customers on Standard Life & Phoenix Life secure customer platforms, including the Standard Life mobile app, asking them to rate their experience after completing a key transaction. Digital transactions measured include Payments, Retirement, Subsequent Withdrawal and Fund Switch. Customer Satisfaction ('CSAT') is measured as the percentage of responses rating their experience as 'good' or 'excellent'.

4 The rating is a percentage based upon the total volume of all complaints resolved within eight weeks from date of receipt divided by the total number of complaints resolved. This is a strategic requirement to allow for external benchmarking within the complaints peer group.

AIP Underpin and Discretion on Corporate element

As described in the Committee Chair's covering letter (page 110), Phoenix has achieved strong financial and non-financial performance and progress on key strategic objectives during the year. The Committee is satisfied that the remuneration outcomes for 2022 are an appropriate reflection of the year's business performance and its trajectory providing strong alignment between pay and performance and with appropriate regard to both the management of risk within our incentives and the broader stakeholder experience. Prior to confirming the outcomes for the 2022 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 2022 formulaic outcome was necessary.

Strategic Scorecard

The Strategic Scorecard represents 20% of the overall incentive opportunity with the Corporate (financial and customer) measures representing 80%. Metrics and targets relating to this scorecard were agreed by the Remuneration Committee at the start of the year. The table below details the outcome against targets of the Strategic Scorecard with the exception of those which are considered as commercially sensitive, together with respective weightings for the Group CEO and Group CFO.

Objective	CEO	CFO	Description	Base	Performance	Outcome
Customer	20%	10%	Net Fund flows for Group	£(7.7)bn	£(5.7)bn	100% Significant outperformance on net fund flows, underpinned by investment in our Workplace proposition and continued focus on customer outcomes. Secured c.£2bn of new scheme wins, with assets scheduled to transfer over the next 12 to 24 months. Continued investment in our BPA proposition to support significant outperformance of internal rate of return.
			BPA IRR	8.60%	15.83%	
			New Workplace assets won	£400m	£294m	
Our People	25%	20%	Employee engagement eNPS	24	30	100% Significant outperformance against all three employee Net Promoter Score targets, with Colleagues being central to Our Purpose. Continued improvement in female representation as part of the broader DE&I agenda. Regular engagement of managers with our Peakon engagement tool continues to be an area of focus.
			Diversity and Inclusion eNPS	40	47	
			Health and Wellbeing eNPS	32	42	
			Increase female representation (% senior leaders)	38.9%	39%	
Sustainable Operating Model & Business Integration	10%	20%	ReAssure integration – capital synergies in year	£62m	£169m	50% Key planned migrations were successfully and safely delivered, and good progress made on the majority of material projects, although there remains significant activity to be done. BAU expenses outturn was adverse to plan due to higher than planned regulatory and audit fees, with ongoing work to deliver committed cost savings. ReAssure integration cost synergy delivery was behind plan, although capital synergies were significantly ahead.
			ReAssure integration – cost synergies in year	£5m	£18m	
			Safe delivery of two planned, critical policy migrations	Delivered	Delivered	
			Total BAU expenses	£937m	£953m	
			Deliver/Progress five agreed, material projects	Assessment against plan (time, cost, benefits)	Green x2 Amber x3 Red x1	
Capital, Asset & Risk Management	15%	20%	Total Group Management Actions – Own Funds	£160m	£542m	50% Outperformance of Management Actions, continuing our track record of generating further value. Continued focus on embedding risk management capabilities and controls to support our ambitions, with good progress in the year, but clear prioritisation of further work in 2023
			Operating with risk appetite	Within Appetite	1 of 6 outside appetite (Control)	
			Open action plans	Green (<=10% actions overdue)	Amber (86% delivered)	
			Customer incidents management	80% category A remediated in 2 months 72.5% category B remediated in 9 months	Green (87% and 75% respectively)	
			RMF effectiveness rating	Green	Amber	
			Regulatory action delivery	Green	Amber	

Directors' remuneration report continued

Objective	CEO	CFO	Description	Base	Performance	Outcome
Sustainability[1]	20%	10%	Launch financial inclusion strategy, focussed on a specific underserved customer group, providing targeted support to empower better financial decisions	Launched financial inclusion strategy	Complete	90% Outperformance or successful delivery against all but one of our ambitious targets, reflecting that our sustainability performance is on track, building on the momentum from 2021. We remain committed to being a leading responsible business, with sustainability embedded throughout.
			Number of Phoenix Group customers that are directly offered the chance to review our Digital Literacy materials and/or initiatives	1m customers	Complete – 1.2 million customers	
			% of SLAL customers in sustainable multi-asset default	c.£15bn AUM and 1.5m customers	Complete	
			Develop and submit for validation emission reduction targets in line with the SBTi financial sector guidance	Developed and submitted	Complete	
			% of originated illiquid investments into sustainable investments	60%	53%	
			Reduce Scope 1 and 2 tonnes CO_2 /FTE for occupied premises	0.79 CO_2/FTE	0.73	
			% of colleagues involved in community activities	40%	41.9%	
			% of key suppliers committed to SBTi/race to net zero	75%	82%	
Financial outcomes	10%	20%	Long Term Free Cash	£13bn	£13.3bn	75% Strong performance against targets for Long-Term Free Cash and Shareholder ratio, reflecting another year of strong delivery against our clear financial framework. Fitch leverage ratio adversely impacted by economics from rising yields. NBC marginally adverse largely due to lower levels of customer response driven by the cost of living crisis.
			Shareholder ratio	160%	189%	
			Fitch leverage ratio	28%	30%	
			NBC	£408m	£386m	

1 All outcomes of the sustainability metrics have been independently verified.

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	83%
Rakesh Thakrar	74%

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.

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	87.7	105.2	83.0	24.9	130.1	150.0	86.8
Rakesh Thakrar	87.7	105.2	74.0	22.2	127.4	150.0	85.0

As described in the Remuneration Policy, 50% of 2022 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 2023 AIP have been disclosed (see Implementation of Remuneration Policy for 2023 on page 137), 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 2023's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2022's AIP.

LTIP outcomes for 2020 awards – Audited information

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Net Operating Cash Receipts (35%)	Target range between Net Operating Cash Receipts of £4.411bn and Net Operating Cash Receipts of £4.966bn	£4.627bn	62.7%	21.9%
Return on Shareholder Value (25%)	Target range between 2% CAGR and 4% CAGR	(1.8)%	0.0%	0.0%
Persistency (20%)	Target range between 8.0% and 6.5%	7.0%	69.0%	13.8%
Relative TSR (20%)	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. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company	57.1%	43.0%	8.6%
Total				44.3%

The above targets were all measured over the period of three financial years 1 January 2020 to 31 December 2022.

As detailed on page 136 of the 2020 Annual Report and Accounts, the 2020 LTIP targets were amended to reflect the new organisation following the acquisition of ReAssure Group plc by the Group on 22 July 2020. 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 impact these adjustments had on the 2020 LTIP are as follows:

Net Operating Cash Receipts – the threshold target (where 25% of this part of the award vests) was increased from £2.375 billion to £4.411 billion with maximum target (full vesting of this part of the award) 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 were no amendments to the target ranges for compound annual growth rates as a result of the acquisition of ReAssure. However, the opening Shareholder Value balance used to calculate the return was rebased by the value of equity issued (£2 billion) in consideration for the acquisition.

Persistency – no changes to this target were made as Persistency relates to the Open business only and is therefore not impacted by the ReAssure transaction.

Underpin and Discretion

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.

Windfall Gains

As reported in the FY 2020 Directors' remuneration report, the Committee reviewed the grant price of the 2020 LTIP (620.5p) compared to the grant price of the 2019 LTIP (700.4p) and was satisfied that no adjustments were required to the awards on grant for windfall gains. The Committee has again reviewed the position ahead of the vesting, taking into account the Phoenix share price as at 28 February 2023 (633.69p) and is satisfied that no windfall gains have occurred and that no adjustment is required on vesting.

Directors' remuneration report continued

Payments for loss of office – Audited information
No payments were made to Directors in 2022 for loss of office.

Payments to past directors – Audited information
Clive Bannister, who resigned from the Board on 10 March 2020, received title to shares during 2022 in respect of the 2019 LTIP. The value of these shares at the point of vesting on 11 March 2022 was £397,303. Taking into account the performance outturn of 78.4% and time pro-rating, this reflected a grant of 52,136 shares with a value of £326,371 plus dividend accrual of 11,331 shares with a value of £70,932. Clive also received title to shares during 2022 in respect of the 2019 DBSS. The value of these shares at the point of vesting on 11 March 2022 was £390,655. This related to the vesting of the deferred element of his 2019 AIP so there were no performance conditions or time pro-rating. This reflected a grant of 51,265 shares with a value of £320,919 plus dividend accrual of 11,140 shares with a value of £69,736.

James McConville, who resigned from the Board on 15 May 2020, received title to shares during 2022 in respect of the 2019 LTIP. The value of these shares at the point of vesting on 11 March 2022 was £295,572. Taking into account the performance outturn of 78.4% and time pro-rating, this reflected a grant of 38,786 shares with a value of £242,800 plus dividend accrual of 8,430 shares with a value of £52,772. James also received title to shares during 2022 in respect of the 2019 DBSS. The value of these shares at the point of vesting on 11 March 2022 was £252,729. This related to the vesting of the deferred element of his 2019 AIP so there were no performance conditions or time pro-rating. This reflected a grant of 33,166 shares with a value of £207,619 plus dividend accrual of 7,206 shares with a value of £45,110.

Non-executive fees – Audited information
The emoluments of the Non-Executive Directors for 2022 based on the current disclosure requirements were as follows:

Name	Directors' salaries/fees 2022 £000	Directors' salaries/fees 2021 £000	Benefits[1] 2022 £000	Benefits[1] 2021 £000	Total 2022 £000	Total 2021 £000
Non-Executive Chair						
Alastair Barbour[2]	255	161	21	10	276	171
Nicholas Lyons[3]	307	370	8	1	315	371
Non-Executive Directors						
Stephanie Bruce[4]	–	–	–	–	–	–
Karen Green[5]	159	141	3	1	162	142
Hiroyuki Iioka[6]	–	–	–	–	–	–
Wendy Mayall[7]	129	111	1	–	130	111
Katie Murray[8]	74	–	2	–	76	–
John Pollock	141	141	3	–	144	141
Belinda Richards	116	111	2	–	118	111
Maggie Semple[9]	63	–	1	–	64	–
Nicholas Shott[10]	139	129	2	–	141	129
Kory Sorenson	141	141	1	–	142	141
Mike Tumilty[11]	–	–	–	–	–	–
Total	1,524	1,305	44	12	1,568	1,317

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 The fee for Alastair Barbour increased to £460k with effect from 1 September 2022 following his appointment as Interim Chair.
3 The fee for Nicholas Lyons reduced to zero following his sabbatical leave with effect from 1 September 2022.
4 Stephanie Bruce was appointed as a member of the Board of Directors on 1 July 2022 and has waived all current and future emoluments with regard to her Directors' fees.
5 Karen Green was appointed as Senior Independent Director on 5 May 2022.
6 Hiroyuki Iioka has waived all current and future emoluments with regard to his Directors' fees.
7 Wendy Mayall was appointed as a member of the Life Companies Board Investment Committee on 1 January 2022. She retired as a member of the Board of Director on 31 December 2022.
8 Katie Murray was appointed as a member of the Board of Directors on 1 April 2022 and Chair of the Group Audit Committee with effect from 1 September 2022.
9 Maggie Semple was appointed as a member of the Board of Directors on 1 June 2022 and was appointed as Designated Director for Workforce Engagement on 1 September 2022.
10 Nicholas Shott was appointed as Chair of the M&A Advisory Group on 29 June 2022.
11 Mike Tumilty waived all current and future emoluments with regard to his Directors' fees up to his date of resignation from the Board on 30 June 2022.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £6.181 million (2021: £4.376 million).

Share-based awards – Audited information
As at 31 December 2022, 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 2022	No. of shares granted in 2022	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 2022	Vesting date[4]
Andy Briggs									
LTIP Buyout Award	7 Nov 2019	751.5p	87,221	–	12,760	(99,981)	–	–	27 Mar 2020
LTIP	13 Mar 2020	620.5p	354,529	–	–	–	–	354,529	13 Mar 2023
LTIP	12 Mar 2021	736.2p	298,831	–	–	–	–	298,831	12 Mar 2024
LTIP	18 Mar 2022	635.9p	–	351,133	–	–	–	351,133	18 Mar 2025
			740,581	351,133	12,760	(99,981)	–	1,004,493	
Rakesh Thakrar									
LTIP	11 Mar 2019	700.4p	39,259	–	8,529	–	(10,323)	37,465	11 Mar 2022
LTIP	13 Mar 2020	620.5p	135,365	–	–	–	–	135,365	13 Mar 2023
LTIP	12 Mar 2021	736.2p	116,816	–	–	–	–	116,816	12 Mar 2024
LTIP	18 Mar 2022	635.9p	–	152,530	–	–	–	152,530	18 Mar 2025
			291,440	152,530	8,529	–	(10,323)	442,176	

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 2022 were £645,224 (2021: £306,053). Andy Briggs gain was £645,224 arising from an LTIP award exercised on 29 March 2022 at a share price of £6.4534.
3 The 2019 LTIP award vested at 78.4% 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.

Directors’ remuneration report continued

LTIP targets

The performance conditions for the 2020, 2021 and 2022 awards are set out below. These targets reflect adjustments made following the acquisition of ReAssure in July 2020 as described on page 136 of the 2020 Annual Report and Accounts.

Performance measure[1]	2020 award 35% Net Operating Cash Receipts 25% Return on Shareholder Value 20% Relative TSR 20% Persistency	2021 award 35% Net Operating Cash Receipts 25% Return on Shareholder Value 20% Relative TSR 20% Persistency	2022 award 20% Net Operating Cash Receipts 20% Return on Shareholder Value 20% Relative TSR 20% Persistency 20% Decarbonisation
Net Operating Cash Receipts	Target range of £4.411bn to £4.966bn	Target range of £4.330bn to £4.780bn	Target range of £3.800bn to £4.100bn.
Return on Shareholder Value	Between 2% CAGR and 4% CAGR	Between 2% CAGR and 4% CAGR	Between 3% CAGR and 5% CAGR.
Persistency	Target range between 8.0% and 6.5%	Target range between 7.4% and 6.1%	Target range between 7.6% and 6.2%
De-carbonisation – Investment Portfolio			Net zero strategy applied between target range of 75% and 85% of assets in scope by 2025 Reduction of 18%–22% in portfolios where a Net Zero strategy has been applied
Decarbonisation – Operations			Target range of 15%–25% reduction year on year against 2019 carbon intensity of Scope 1 and 2 emissions from occupied premises and Scope 3 emissions from business travel
Relative TSR[2] 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests.	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.	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.	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.

1 For each measure above, 25% of the award vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.
2 The Committee must also consider whether the TSR performance is reflective of the underlying performance of the Company measured over three financial years commencing with the year of award.

LTIP Underpin:

2020 LTIP – notwithstanding the formulaic outcome under the above performance targets, if the Committee determines that the Group’s debt levels and associated interest costs have not remained within parameters acceptable to the Committee over the performance period, and that the Group has not made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management, capital structuring and Risk Management, the level of awards vesting will either be reduced or lapse in full. The underpin also includes consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance.

2021 and 2022 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.

DBSS – Audited information

	Date of grant	Share price on grant	No. of shares granted as at 1 Jan 2022	No. of shares granted in 2022	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 2022	Vesting date
Andy Briggs									
DBSS	12 Mar 2021	736.2p	67,269		–	–	–	67,269	12 Mar 2024
DBSS	18 Mar 2022	635.9p	–	73,610	–	–	–	73,610	18 Mar 2025
			67,269	73,610	–	–	–	140,879	
Rakesh Thakrar									
DBSS	11 Mar 2019	700.4p	11,740	–	2,548	(14,288)	–		11 Mar 2022
DBSS	13 Mar 2020	620.5p	15,262	–	–	–	–	15,262	13 Mar 2023
DBSS	12 Mar 2021	736.2p	27,381		–	–	–	27,381	12 Mar 2024
DBSS	18 Mar 2022	635.9p	–	39,209				39,209	18 Mar 2025
			54,383	39,209	2,548	(14,288)	–	81,852	

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 (Rakesh Thakrar only) from share options exercised and vesting shares under the DBSS in 2022 was £91,800 (2021: £59,922) arising from an award exercised on 25 March 2022 at a share price of £6.4249.

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	18 March 2022	LTIP	Nil Cost Option	275% of salary	£2,232,995	25%	18 March 2025	See page 134
Andy Briggs	18 March 2022	DBSS	Nil Cost Option	50% of AIP	£468,115	–	18 March 2025	None
Rakesh Thakrar	18 March 2022	LTIP	Nil Cost Option	200% of salary	£969,999	25%	18 March 2025	See page 134
Rakesh Thakrar	18 March 2022	DBSS	Nil Cost Option	50% of AIP	£249,345	–	18 March 2025	None

1 The DBSS awards have no threshold performance level.

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 (2022 LTIP and DBSS award share price was 635.9p).

Sharesave – Audited information

	As at 1 Jan 2022	Options granted	Options exercised	Options lapsed	As at 31 Dec 2022	Exercise price	Exercisable from	Date of expiry
Andy Briggs	3,056	–	–	–	3,056	£5.89	1 Jun 2024	1 Dec 2024
Rakesh Thakrar	1,604	–	(1,604)	–	–	£5.61	1 Jun 2022	1 Dec 2022
Rakesh Thakrar	2,546	–	–	–	2,546	£5.89	1 Jun 2026	1 Dec 2026
Rakesh Thakrar	–	1,768	–	–	164	£5.09	1 Jun 2025	1 Dec 2025

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. Following the exercise of 1,604 options under the 2019 Sharesave scheme, Rakesh Thakrar received a total gain of £1,963 (2021: £nil).

Aggregate gains of Directors from share options exercised under all share plans in 2022 were £738,988 (2021: £365,975).

During the year ended 31 December 2022, the highest mid-market price of the Company’s shares was 701.4p and the lowest mid-market price was 506.8p. At 31 December 2022, the Company’s share price was 608.6p (30 December 2022 price).

Directors' remuneration report continued

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 2022 or date of appointment if later	Share interests as at 31 December 2022 or retirement if earlier	Total share plan interests as at 31 December 2022 – Subject to performance measures	Total share plan interests as at 31 December 2022 – Not subject to performance measures	Total share plan interests as at 31 December 2022 – Vested but unexercised scheme interest
Andy Briggs	285,897	359,111	1,004,493	140,879	–
Rakesh Thakrar	102,822	116,201	404,711	81,852	37,465
Alastair Barbour	9,716	9,716	–	–	–
Nicholas Lyons	65,990	65,990	–	–	–
Stephanie Bruce	–	–	–	–	–
Karen Green	–	–	–	–	–
Hiroyuki Iioka	–	–	–	–	–
Wendy Mayall	55,000	55,000	–	–	–
Katie Murray	–	4,600	–	–	–
John Pollock	14,666	14,666	–	–	–
Belinda Richards	–	–	–	–	–
Maggie Semple	–	–	–	–	–
Nicholas Shott	38,995	69,473	–	–	–
Kory Sorenson	38,300	45,000	–	–	–
Mike Tumilty	–	–	–	–	–

The Directors' share interests of the following Directors have increased between 31 December 2022 and 10 February 2023 (being one month prior to the date of the notice of the AGM). Andy Briggs and Rakesh Thakrar acquired an additional 64 shares each following purchases under the Group's Share Incentive Plan. 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.

The extent to which Executive Directors have achieved the requirements by 31 December 2022 (using the share price of 608.6p pence as at 30 December 2022) is summarised below. Unvested share awards no longer subject to performance conditions (discounted for tax liabilities) are included within the Guidelines. In addition to the unvested share awards and shares previously acquired, Andy Briggs purchased 20,000 shares and Rakesh Thakrar purchased 3,133 shares independently throughout 2022. As detailed in the Chair's covering statement, the Shareholding Guidelines are increasing to 350% for Andy Briggs and 300% for Rakesh Thakrar with effect from 2023 as part of the 2023 Remuneration Policy.

Position	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2022 (% of salary)
Andy Briggs	300%	324%
Rakesh Thakrar	250%	223%

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, Share Incentive Plan 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 2023 – Non-auditable

A summary of the packages of the Executive Directors is set out in the table below.

	Andy Briggs	Rakesh Thakrar
Salary	£844,480, a 4% increase, below the level of the wider workforce pay budget.	£504,400, a 4% increase, below the level of the wider workforce pay budget.
Benefits	Benefits in line with the rest of the workforce including legacy 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	200% of base salary at maximum. Details of the 2023 AIP are set out below.	
LTIP	275% of base salary.	200% of base salary.
	Details of the 2023 LTIP awards are set out overleaf.	
Shareholding requirement	350% of base salary.	300% 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

Annual Incentive Plan ('AIP')

The Committee regularly reviews the performance measures of the incentive plans to ensure they remain aligned with our strategy. As detailed in the Committee Chair's covering letter on page 111 the metrics for the 2023 AIP are shown below.

The Strategic Scorecard reflects 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. Sustainability remains at the heart of our purpose and ESG continues to form part of the Strategic Scorecard elements of the Executive Directors.

The overall weightings between Corporate measures and Strategic Scorecard for AIP in 2023 are:

- Corporate (financial and customer) performance measures – 80%; no change from 2022.
- Strategic Scorecard (strategic company priorities) – 20%; no change from 2022.

The weightings of the AIP performance measures for 2023 are summarised below:

Performance measure

Corporate measure	% of incentive potential
Cash Generation	24% (30% of Corporate component)
Incremental New Business Long-term Cash Generation (less strain) plus Own Funds impacting Management Actions	24% (30% of Corporate component)
Open (Pensions and Savings) net flows	12% (15% of Corporate component)
Customer Experience	20% (25% of Corporate component)
Strategic Scorecard	20%
Total	**100%**

Outcomes from performance measures for 2023'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 of 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 2023 AIP outcomes are confirmed. The targets for the specific performance measures for the AIP in 2023 are regarded as commercially sensitive by the Group but will be disclosed retrospectively in the Remuneration Report for 2023.

50% of AIP outcomes for 2023 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 2023 (in respect of 2022's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Group's 2022 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.

Directors' remuneration report continued

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 2022 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 granting 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. The performance targets are measured over a period of three financial years, commencing with financial year 2023. As detailed in the Committee Chair's covering letter on page 112 the 2023 LTIP measures have changed. Measures, weightings and targets are shown below:

Performance measure and weighting	Threshold target	Full vesting target
Net Operating Cash Receipts (20%)	£3,556m	£4,006m
Group In-force Long-Term Free Cash (20%)	£14.7m	£15.4m
Persistency (20%)	7.1%	6.08%
Decarbonisation – Investment Portfolio (10%)	75% reduction pre-offset, plus net zero post offset (provided in the best interests of customers)	85% reduction pre-offset, plus net zero post offset (provided in the best interests of customers)
Decarbonisation – Operations (10%)	Net-zero strategy applied to 80% of in-scope assets and 25% reduction in carbon intensity	Net-zero strategy applied to 90% of in-scope assets and 25% reduction in carbon intensity
Relative TSR measure against the constituents of the FTSE 350 (excluding Investment Trusts), subject to the Committee considering whether the TSR performance is reflective of the underlying financial performance of the Company (20%)	50th percentile	80th percentile

All 2023 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 reflects 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.

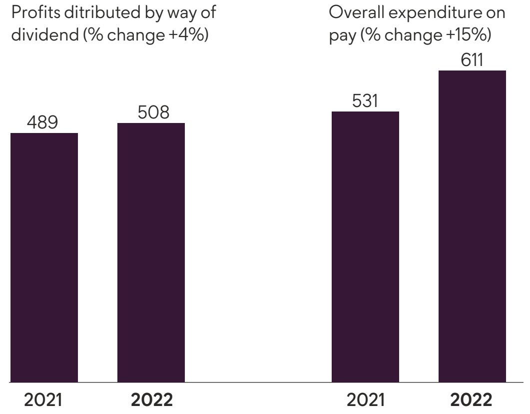
All-Employee Share Plans	Executive Directors have the opportunity to participate in HMRC tax advantaged Sharesave and Share Incentive Plans on the same basis as all other UK employees.
Chair and Non-Executive Directors' fees	Fee levels from 1 April are: £460,000 for the Chair, £78,000 for the role of 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, the Model Governance Committee and attendees to the Life Company Investment Committee. (iii) £20,000 payable where an individual chairs the M&A Advisory board; (iv) £15,000 payable for the Designated Director for Workforce Engagement, and £10,000 for other members of the M&A Advisory Board. The fee structure levels for Non-Executive Directors were last reviewed in December 2020 (effective 1 January 2021) with no fee increase in 2022. For 2023 the base fee will increase by 4% with effect from 1 April 2023, lower than that of the wider workforce. This is to ensure the fees reflect the time commitment and workload for the role and they remain competitive with other listed companies of similar size and complexity.

All incentive plans are subject to malus/clawback. See page 123 'Notes to the Remuneration Policy Table' 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 2022 this is the interim dividend paid (£248 million) and the recommended final dividend of 26.0 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 the 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 15% in the period reflecting the impact of the expansion of the Open business, as well as the increased headcount in Asset Management and Group areas, which has also resulted in higher AIP and share scheme costs. One-off payments were also made in August 2022 in addition to general salary increases to help with the impacts of the current cost of living challenges. These increases have been partly offset by the impact from the Group's Transition and Transformation programme which has reduced headcount in certain areas of the business.

Voting outcomes on remuneration matters

The table below shows the votes cast to approve the Directors' remuneration report for the year ended 31 December 2021 and the Directors' Remuneration Policy at the 2020 AGM held on 15 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 2022 (2022 AGM)	772,702,304	98.15	14,593,901	1.85	777,768
To approve the Directors' remuneration policy (2020 AGM)	563,455,466	99.31	3,899,742	0.69	744,467

Directors' remuneration report continued

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 current 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 2022 is 0.75% and no shares count towards the dilution limit for executive plans only (5% in any rolling ten-year period).

Consideration of employee pay

When determining the Remuneration Policy and remuneration for our Executive Directors, the Committee took into consideration the pay and benefits of the wider workforce to ensure that our reward offering remains competitive, attractive and suitably aligned to our Group performance, while supporting our values and purpose of helping people secure a life of possibilities. Throughout the Sustainability report (on pages 50 to 56) there are examples of how our reward proposition played an integral role in supporting the Group culture that encourages diversity and inclusion, colleague development, rounded wellbeing, and supporting a sustainable society.

We have a reward policy that is broadly consistent for all levels of employees, with the same remuneration principles guiding reward decisions for all Group colleagues, including Executive Directors. The AIP and LTIP performance metrics are the same for Executive Directors as for other eligible colleagues, with a higher proportion of total remuneration for the Executive Directors linked to corporate performance. For certain areas, business unit aligned metrics are also included in their AIP. Pay for the wider colleague base is driven primarily by market practice and there is a standard benefit offering across all levels, except where external market drives differences based on role accountability. Colleagues are also eligible to participate in the Group's success through our share schemes (Sharesave and Share Incentive Plan) on the same basis as those offered to Executive Directors.

Diversity, Equity and Inclusion is embedded in the Group culture through our industry leading family friendly policies, holistic wellbeing strategy that supports mental, physical and financial needs of colleagues and encouraging volunteering. Additionally, the Committee considers feedback on pay and benefits through Peakon, a short monthly survey of colleagues' anonymous views on various matters, including reward. Further feedback from colleagues is received through extensive collaboration with the Phoenix Colleague Representation Forum ('PCRF') and the Designated Director for Workforce Engagement (see page 108).

In response to the cost of living challenge throughout 2022, we recognised colleagues' needs and provided a one-off £1,000 net lump-sum payment to all colleagues below senior management. Our financial wellbeing offering was also enhanced by including free personalised financial coaching and planning, and piloting a midlife MOT as part of our purpose to help people live better, longer lives. Additionally, throughout 2022 we provided assistance with car parking costs, a free lunch option and free sanitary items in all offices. We are a proud Real Living Wage employer and we made salary increases effective immediately following the announcement of the new Real Living Wage for those impacted.

Equal pay and consistency of treatment for all colleagues, irrespective of gender[1] or ethnicity are integral guiding principles of the reward practices across the Group. The remuneration principles and framework are reviewed on a regular basis to ensure these are aligned with the Group's purpose, values and sustainability strategy.

1 Further details on the Women in Finance Charter figures can be found on page 50 of the Sustainability Report. Further details on the statutory Gender Pay Gap figures can be found on the Phoenix Group website.

CEO pay ratio

The table below details the CEO pay ratio for the year ended 31 December 2022, in line with the UK regulatory requirements. The ratios compare the CEO total pay against the pay of three UK employees, whose earnings represent the lower quartile, median, and upper quartile positions of the UK employee population. The calculations are based on Option A of the three methodologies, which we believe is the most statistically robust approach.

The CEO value used is the total single figure remuneration data for 2022 (as detailed on page 127). For the 2022 ratio, the total compensation figure for UK employees follows the same methodology as for the CEO and is based on a full time equivalent of actual earnings including 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 direct employee on a permanent or fixed-term contract during 2022 and received remuneration in line with Group wide remuneration policies. None received an exceptional award that would otherwise inflate their pay figure.

The table below sets out the salary and total single figure remuneration for the Group CEO and percentile employees included in the below ratios.

	Year	Methodology	CEO	25th percentile	50th percentile (median)	75th percentile
Salary	2022	Option A	809,000	23,413	40,000	53,508
Total remuneration (single figure)	2022	Option A	3,058,279	30,600	44,223	75,368
2022 Ratio (total compensation)				100:1	69:1	41:1
2021 Ratio (total compensation)				66:1	46:1	26:1
2020 Ratio (total compensation)				78:1	54:1	31:1
2019 Ratio (total compensation)				94:1	62:1	40:1

The increase in the ratio for 2022 reflects the fact that the CEO's single figure has increased compared to 2021 primarily due to the vesting of this 2020 LTIP award. To better compare to the 2021 figure, an additional ratio has been calculated excluding the value of LTIPs from both the CEO single figure and that of other employees, resulting in a median pay ratio of 44:1. The total compensation figure for the three identified employees is higher than last year due to the addition of the £1,000 cost of living payment described above under the 'Consideration of Employee Pay' section and our philosophy of pay progression within the Group.

UK colleagues are also eligible to participate in our Sharesave and Share Incentive Plan offerings, which were not included in the values in the employee single figure. Around 32% and 35% of UK employees participate in Phoenix Group's growth and success through the Sharesave and Share Incentive Plan respectively.

Phoenix Group is committed to attracting best in class talent at all levels with a compelling and competitive total reward proposition. This includes a holistic core and flexible suite of benefits with the ability to customise these to meet individual needs, as well as industry leading people policies including equal parental leave. We are an accredited Living Wage employer and committed to paying colleagues a fair rate for their role by conducting regular market reviews of salary ranges to maintain competitiveness against market.

We are confident that the median pay ratio reported this year is consistent with our approach to pay, reward, career progression and growth for all colleagues. All colleagues have the opportunity for annual pay awards, performance driven pay and recognition as well as access to opportunities to develop their careers at Phoenix ensuring we create an environment for everyone to feel it is the best place our colleagues have ever worked.

Directors' remuneration report continued

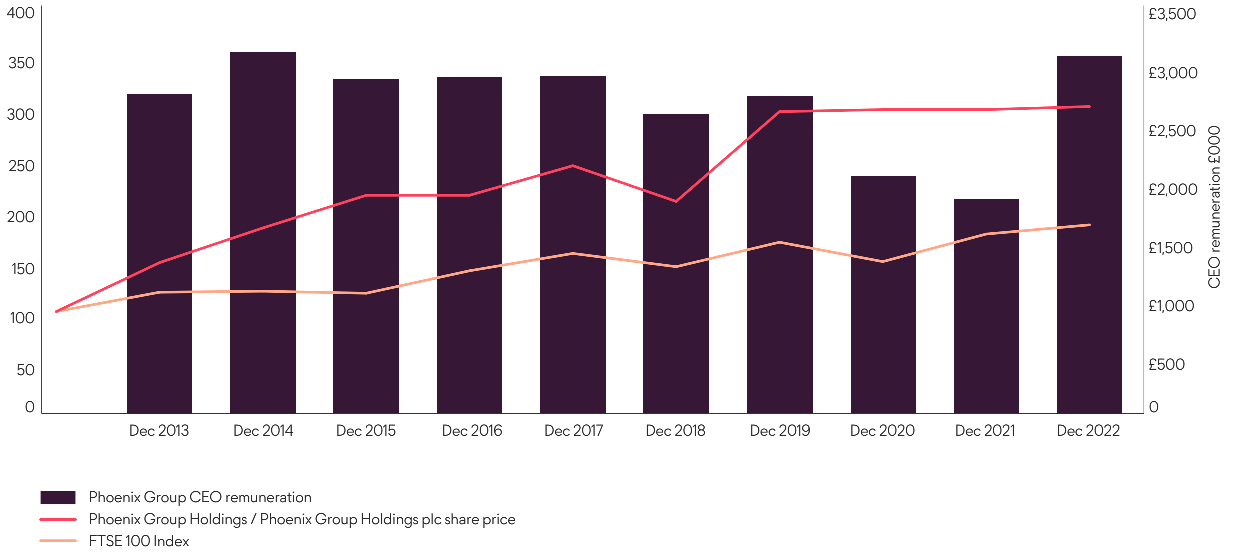
Performance graph and table

The graph below shows the value to 31 December 2022 on a TSR basis, of £100 invested in Phoenix Group Holdings plc on 31 December 2012 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 31 December 2012.



The total figure of remuneration for 2020 shown above is a combination of the single figures for Clive Bannister and Andy Briggs to reflect the change in Group CEO in 2020. The single figure for Andy Briggs for 2022 reflects the first year of vesting of his LTIP award.

The DRR regulations also require that this performance graph is supported by a table summarising aspects of the Group CEO's remuneration for the period covered by the above graph.

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')
2022	Andy Briggs	3,058	87%	44.3%
2021	Andy Briggs	1,831	78%	n/a[1]
2020	Andy Briggs[2]	1,706	83%	0.0%[3]
	Clive Bannister[2,4]	321	81%	n/a[5]
2019	Clive Bannister	2,715[6]	92%	68.5%
2018	Clive Bannister	2,567	86%	49.5%
2017	Clive Bannister	2,888	86%	64.0%
2016	Clive Bannister	2,878	84%	55.0%
2015	Clive Bannister	2,867	82%	57.0%
2014	Clive Bannister	3,104	68%	57.0%[7]
2013	Clive Bannister	2,737	69%	67.0%[7]

1 Andy Briggs was not in receipt of a 2019 LTIP due to the timing of his appointment.
2 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.
3 See footnote 11 on page 130 of the 2020 Annual Report and Accounts for details of Andy Briggs's LTIP vesting.
4 Clive Bannister's 2020 single figure of total remuneration does not include compensation for loss of office.
5 Clive Bannister's 2020 single figure of total remuneration does not include any value in respect of the 2018 LTIP. LTIP awards which vested after Clive Bannister stepped down from the Board of the Company have been reported as Payments to Past Directors on page 132 and are not included in the single figure of total remuneration, in line with the reporting regulations.
6 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.
7 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.

Percentage change in pay of the Group Chief Executive Officer 2021 to 2022

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 2021 and 2022 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.

	Salary / Fees			Taxable Benefits			Annual incentive		
Year-on-year % change	2022	2021	2020	2022	2021	2020	2022	2021	2020
Executive Directors[1]									
Andy Briggs	**1.1%**	0.0%	–	**2.6%[2]**	3.3%	–	**12.4%**	(5.5)%	–
Rakesh Thakrar	**10.2%**	2.3%	–	**20.7%[2]**	3.3%	–	**20.4%**	(3.3)%	–
Non-Executive Directors[3]									
Alastair Barbour[4]	**58.4%**	11.0%	0.0%	**109.1%**	66.6%	(60%)	**n/a**	n/a	n/a
Nicholas Lyons	**(17.1)%**	13.8%	0.0%	**897.6%**	n/a[4]	(100%)	**n/a**	n/a	n/a
Stephanie Bruce[5]	**n/a[4]**	–	–	**n/a[4]**	–	–	**n/a**	n/a	n/a
Karen Green	**12.8%**	12.8%	6.8%	**362.9%**	n/a[4]	(100%)	**n/a**	n/a	n/a
Hiroyuki Iioka	**0.0%**	0.0%	–	**0.0%**	0.0%	–	**n/a**	n/a	n/a
Wendy Mayall	**16.2%**	5.7%	0.0%	**n/a[4]**	0.0%	(100%)	**n/a**	n/a	n/a
Katie Murray[5]	**n/a[4]**	–	–	**n/a[4]**	(100)%	–	**n/a**	n/a	n/a
John Pollock	**0.0%**	4.4%	0.7%	**n/a[4]**	0.0%	(100%)	**n/a**	n/a	n/a
Belinda Richards	**4.5%**	5.7%	0.0%	**n/a[4]**	0.0%	(100%)	**n/a**	n/a	n/a
Maggie Semple[5]	**n/a[4]**	–	–	**n/a[4]**	(100)%	–	**n/a**	n/a	n/a
Nicholas Shott	**7.7%**	22.8%	0.0%	**208.3%**	(100)%	(80%)	**n/a**	n/a	n/a
Kory Sorenson	**0.0%**	12.8%	0.0%	**n/a[4]**	0.0%	(100%)	**n/a**	n/a	n/a
Mike Tumilty	**0.0%**	0.0%	0.0%	**n/a[4]**	0.0%	(100%)	**n/a**	n/a	n/a
Wider Employee Population	**4.4%**	4.7%	3.9%	**57.2%**	1.4%	7.4%	**27.6%**	9.1%	n/a

1 The Taxable Benefits figures used for Andy Briggs and Rakesh Thakrar includes ongoing taxable benefits only.
2 The Taxable Benefits figures reflect a change in approach to reporting whereby the benefits under the Sharesave and Share Incentive Plan (previously included within the LTIP figure within the Single Figure Table) are now included within Taxable Benefits instead. This amounts to £2.5k for Rakesh Thakrar and £600 for Andy Briggs.
3 See page 132 for further details on fees and taxable benefits for Non-Executive Directors. Non-Executive Directors do not participate in the Annual Incentive Plan.
4 No taxable benefit received in the prior year and therefore not possible to calculate a percentage change.
5 Stephanie Bruce, Katie Murray and Maggie Semple are newly appointed Board members and therefore it is not possible to calculate a percentage change.

The Salary figures for the Executive Directors reflect the increases agreed in 2022.

Annual Incentive figures for the Executive Directors are higher than in 2021 due to the higher outturn under the 2022 AIP compared with the 2021 AIP reflecting the strong performance of the business, and the increase to base salary in April 2022.

The fee increases for the Non-Executive Directors reflect the increases agreed in 2022 and changes in Board roles and responsibilities. Stephanie Bruce, Katie Murray and Maggie Semple were appointed during the year and as such it is not possible to calculate a percentage change. Taxable benefits have increased for certain Non-Executive Directors as a consequence of resuming travel compared to the prior year.

The figures for the wider employee population are generally higher compared to 2021 due to a number of factors:

- Pay review in April 2022 was operated under a consistent approach with a pay budget of 3.5%. In the context of the economic environment, a flat increase was given to lower graded colleagues ensuring a higher flat increase for this population compared to more senior colleagues. Additional salary increases were awarded throughout the year, where appropriate, to ensure consistency, internal relativities, and to retain talent.
- The change to benefits is largely as a result of the one-off lump sum payment of £1,000 to all colleagues below senior management in response to the cost of living challenge (see page 140). By way of comparison the benefit figure excluding this one-off cost of living payment has reduced by 3.6% as a result of a reduction in PMI premium and the ending of the working from home allowance that was provided to colleagues during the pandemic. As in previous years, Sharesave and Share Incentive Plan values are not included in the wider employee population figures
- As with the Executive Directors, the increase in annual incentive payments is due to the higher outturn under the corporate element than in 2021, and reflects the strong performance achieved in 2022.

Directors' remuneration report continued

Directors' service contracts

The dates of contracts and letters of appointment and the respective notice periods for Directors are as follows:

Executive Directors' Service 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

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. They are also entitled to retain any external fees.

Andy Briggs is a board member of the Association of British Insurers and is the UK Government's Business Champion for Older Workers.

Rakesh Thakrar is a Non-Executive Director and Chair of the Board Audit Committee of Bupa Insurance Limited and Bupa Insurance Services Limited for which he received payment of £37,382 in 2022 on a pro-rated basis. He remains as a Director of Mythili Magha for which no payments are received.

Non-Executive Directors' letters of appointment

Name	Date of letter of appointment	Date of joining Phoenix Group Holdings Plc Board[1]	Date of last re-appointment letter	Date of expiry	Unexpired term (months)[2]
Alastair Barbour	1 November 2018	1 October 2013	1 September 2022	November 2023	8
Nicholas Lyons[3]	15 October 2018	31 October 2018	31 October 2021	1 September 2022	–
Stephanie Bruce	9 May 2022	1 July 2022	n/a	1 July 2025	28
Karen Green	1 November 2018	1 July 2017	1 July 2020	30 June 2023	3
Hiroyuki Iioka	23 July 2020	23 July 2020	n/a	23 July 2023	4
Wendy Mayall[4]	1 November 2018	1 September 2016	1 September 2022	31 December 2022	–
Katie Murray	1 April 2022	1 April 2022	n/a	1 April 2025	24
John Pollock	31 October 2022	1 September 2016	1 September 2022	30 August 2025	29
Belinda Richards	1 November 2018	1 October 2017	1 October 2020	30 September 2023	6
Maggie Semple	9 May 2022	1 June 2022	n/a	31 May 2025	26
Nicholas Shott	1 November 2018	1 September 2016	1 September 2022	30 August 2025	29
Kory Sorenson	1 November 2018	1 July 2014	1 July 2020	30 June 2023	3
Mike Tumilty[5]	14 August 2019	1 September 2019	n/a	30 June 2022	–

1 Date of expiry refers to each individual directors' letter of appointment which covers a three year term. All Directors are subject to annual re-election at the AGM on 4 May 2023.
2 The unexpired term is from date of the signing of these accounts to the end of each Directors' current letter of appointment and includes whole months only.
3 Alastair Barbour is expected to retire from the Board subsequent to Nicholas Lyons resuming his role as Chair of the Board which is expected to be in November 2023.
3 Nicholas Lyons commenced his sabbatical on 1 September 2022 and is expected to rejoin the Board in November 2023.
4 Wendy Mayall retired from the Board on 31 December 2022.
5 Mike Tumilty retired from the Board on 30 June 2022.

The tables above 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 Chair) they would be entitled to a one-month notice period. The Chair, 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 2022 in respect of the application of the Remuneration Policy are summarised in the Committee Chair'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 2022 and their date of appointment:

Member	From	To
Kory Sorenson (Committee Chair from 11 May 2017)	1 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 2022, eight formal Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 83.

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 Group-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 have 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 2022

Q1	Q2	Q3	Q4
• Chief Risk Officer report noted • Approval of Group and functional AIP outturns for 2021 and Group and functional AIP metrics and targets for 2022 • Approval of LTIP outturns for 2021 and metrics and targets for 2022 • Executive Directors and Executive Committee salary decisions for 2023. • Approval of 2022 Share Plan Awards • Oversight of wider employee remuneration and cost of living support	• Group-wide Remuneration Review • Remuneration Policy Review • Investor feedback on DRR • Share schemes update	• Chief Risk Officer mid-year Report noted • AIP / LTIP forecasts and outturns • Approve LTIPs mid-year grant • Remuneration Review update (including Remuneration Policy)	• 2022 AIP Phoenix Re targets • Remuneration Review (including Remuneration Policy approval) • Shareholder consultation • Review of Group CEO / CFO remuneration for 2023 • Shareholding Guidelines noted • Committee Effectiveness Review.

Advice provided to the Committee
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, sustainability 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 2022 were £191,461 which included support for the renewal of the Remuneration Policy. 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 Committee completed an internal effectiveness review for 2022. From that evaluation the Committee requested focused education sessions from PwC during 2023 on wider employee pay and how our peers and other FTSE100s are not only navigating remuneration in the current geo-political and UK economic uncertainty, but how new Director Remuneration Policies are being communicated to the wider workforce in line with the Corporate Governance Code. The formal review of the Committee's effectiveness was covered as part of this year's internal Board and Committee evaluation process for 2022. From that evaluation it was agreed that formal education sessions from PwC during 2023 be arranged on wider employee pay and how our peers and other FTSE100s are not only navigating remuneration in the current geo-political and UK economic uncertainty, but how new Directors Remuneration Policies are being communicated to the wider workforce in line with the Corporate Governance Code

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 10 March 2023

Directors' report

The Directors present their report for the year ended 31 December 2022. Phoenix Group Holdings plc is incorporated in England and Wales (registered no. 11606773) and has a premium listing on the London Stock Exchange.

Shareholders	
Dividends	
Dividends for the year ended 31 December 2022	Dividends for the year are as follows: **Ordinary shares** Paid interim dividend: 24.8p per share (2021: 24.1p per share) Recommended final dividend: 26.0p per share (2021: 24.82p per share) Total ordinary dividend: 50.8p per share (2021: 48.92p per share) 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 so 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	
Issued Share Capital	The issued share capital of the Company increased by 816,419 shares during 2022 which related to shares issued under the Company's Sharesave Scheme. At 31 December 2022, the issued ordinary share capital totalled 1,000,352,477. Subsequently, 15,998 ordinary shares have been issued in 2023 in connection with the Company's Sharesave Scheme to bring the total in issue to 1,000,368,475 at the date of this Directors' Report. Full details of the issued and fully paid share capital as at 31 December 2022 and movements in share capital during the period are presented in note D1 to the IFRS consolidated financial statements.
Authority to Purchase Own Shares	At the Company's 2022 AGM, shareholders approved the renewal of the Company's authority to make purchases of up to 99,955,427 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 2022. The authority will expire at the 2023 AGM. A resolution to renew this authority shall be proposed in the 2023 AGM Notice of Meeting.
Treasury Shares	The Company held no treasury shares during the year or up to the date of this Directors' Report.
Rights and Obligations Attached	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/governance.
Phoenix Group Employee Benefit Trust ('EBT')	Where the 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 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.

Directors' report continued

Shareholders

Share capital

Substantial shareholdings

Information provided to the Company pursuant to Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules ('DTR 5') is published on a Regulatory Information Service and on the Company's website. As at 31 December 2022, the following interests with voting rights in the Ordinary share capital of the Company had been notified to it under DTR 5. No changes have occurred in respect of the holdings below between 31 December 2022 and 10 March 2023.

Name	Number of voting rights in shares	Percentage of shares in issue
MS&AD Insurance Group Holdings Inc.	144,877,304	14.48%
abrdn plc	107,025,201	10.69%
BlackRock, Inc.	51,251,518	5.14%

Annual General Meeting ('AGM')

2023 AGM

The AGM of the Company will be held at 9th Floor, 20 The Old Bailey, London, EC4M 7AN on 4 May 2023 at 10am. 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

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 membership

The membership of the Board of Directors during 2022 is given within the Corporate Governance Report on pages 74 to 76, which is incorporated by reference into this Directors' Report.

During 2022 and up to the date of this Directors' Report, the following changes to the Board took place:

- Katie Murray was appointed as a director on 1 April 2022
- Maggie Semple was appointed as a director on 1 June 2022
- Mike Tumilty, abrdn plc Nominated Director, retired from the Board on 30 June 2022
- Stephanie Bruce, abrdn plc Nominated Director, was appointed as a director on 1 July 2022
- Nicholas Lyons commenced his sabbatical on 1 September 2022
- Alastair Barbour commenced his position as Chair on 1 September 2022
- Wendy Mayall retired from the Board on 31 December 2022

Related party transactions

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 note I4 to the IFRS consolidated financial statements.

Appointment, re-election and removal of Directors

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 their 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 4 May 2023.

The Company's 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.

Director powers and authorities

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 on pages 127 to 146 including details of their interests in shares and share options or any rights to subscribe for shares in the Company.

"Our Going Concern Statement, detailed on the following page, is made following a rigorous assessment of whether the Group and Company have adequate resources to continue in operational existence over the next 12 months, based on severe but plausible scenarios."

Rakesh Thakrar
Group Chief Financial Officer

Board

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. See page 79 of the Corporate Governance Report for more detail.

On an ongoing basis, Directors are responsible for informing the Group 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 includes details of the Group's cash flow and solvency position, including sensitivities for both, alongside details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. Principal risks and their mitigation are detailed on pages 56 to 67. 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 14 to 17) sets out the business model and how the Group creates value for shareholders and policyholders.

As part of its comprehensive assessment as to whether the Group and the Company are a going concern, the Board has considered financial projections over the period to 31 March 2024, which demonstrate the ability of the Group to withstand market shocks in a range of severe but plausible stress scenarios. Further details of these stress scenarios are included in the viability statement on pages 68 to 69, but they include a recessionary economic stress that reflects a further increase in inflation, additional credit downgrades and falling equity and property values. The projections demonstrate that appropriate levels of capital would remain in the Life Companies under both the base and reasonably foreseeable stress scenarios, thus supporting cash generation in the going concern period. In addition, the Board noted the Group's access to additional funding through its undrawn £1.25 billion Revolving Credit Facility. The stresses do not give rise to any material uncertainties over the Group's ability to continue as a going concern.

The Directors therefore have a reasonable expectation that the Group and the Company have adequate resources to meet its liabilities as they fall due and continue in operational existence over the period to 31 March 2024, 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 2022.

Viability statement

The Viability Statement, as required by the UK Corporate Governance Code, has been undertaken for a period of three years to align to the Group's business planning and is contained in the Risk Management section on pages 52 to 67.

Directors' report continued

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 72 to 146 which is incorporated by reference into this Directors' Report and comprises the Company's Corporate Governance Statement.

The 2018 UK Corporate Governance Code (the 'Code') applies to the Company and details on the Company's compliance with the Code are included in the Corporate Governance Report on page 77. The Code is available on the website of the FRC – 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 2022 are highlighted in the 'Strategy and KPIs' section of the Strategic Report.	See pages 18 to 27 of the Strategic Report
Our people and diversity	The Company's People strategy for colleagues is detailed in the Group's Sustainability Report. The Company's diversity and inclusion targets for colleagues are also detailed in the Group Sustainability Report, with highlights set out in the Strategic Report.	• See pages 26, 27 and 42 of the Strategic Report • See the Company's supplementary Sustainability Report
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. The Group also has a Reasonable Adjustments Policy which sets out Phoenix's duty to make reasonable adjustments to help ensure that all colleagues can access opportunities and thrive in employment. In addition, the Group has a Dignity at Work policy which sets out Phoenix's commitment to creating a work environment free of discrimination where everyone is treated with dignity and respect. Our colleague inclusion networks includes a group 'Enable' which promotes the interests of colleagues with disabilities and other long-term health conditions.	• See the Company's website for more information
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 and 'Engagement in Action' section of the Corporate Governance Report. 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 and the Corporate Governance Report. Information about how the Board has engaged with the workforce can also be found in the Corporate Governance Report. During the year, information about the Group's performance and market trends impacting Phoenix was shared via an all-employee intranet. In addition, colleagues were invited to participate in the Group's Sharesave scheme, advertised through the all-employee intranet.	• See page 42 of the Strategic Report and pages 108 to 109 of the Corporate Governance Report (for colleague engagement) and 84 to 87 (for section 172 statement) of the Strategic Report
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. 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 43 and Corporate Governance Report on pages 84 to 87.	• See pages 42 to 43 (stakeholder engagement) and page 43 (for section 172 statement) of the Strategic Report.
Greenhouse gas emissions	All disclosures concerning the Group's greenhouse emissions are contained in the Group's Streamlined Energy and Carbon Reporting ('SECR') Statement forming part of the Strategic Report.	• See pages 46 to 47 of the Strategic Report

Governance

Other disclosures required within this corporate governance statement are set out below:

Task Force on Climate-related Financial Disclosures ('TCFD')	In accordance with LR 9.8.6R, climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures are contained in the Group's Climate Report, a summary of which has been included in the Strategic Report on pages 48 to 51 due to their strategic importance. During 2022, significant progress has been made in further embedding the recommendations of the TCFD and aligned with the expectations of the PRA's Supervisory Statement 3/19. In light of this progress, the recognised strategic importance of climate risks and opportunities and the increasing need for transparent climate reporting, Phoenix has published a standalone Climate Report which is available on the Company's website.
Board diversity – gender and ethnicity	In accordance with LR 9.8.6R, a statement on board diversity targets and numerical data on the ethnic background and gender of the Board of Directors and Executive Committee are included in the Corporate Governance report on page 92. Data was collated through the standard process for preparing the Group's annual submission to the Department for Business & Trade (formerly BEIS) in respect of the Parker Review: FTSE 350 Ethnic Diversity Data Submission and FTSE Women Leaders review, under applicable data protection laws.
Energy usage and Carbon Emissions under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155)	The Group's Streamlined Energy and Carbon Reporting ('SECR') statement on the Group's UK and global energy consumption and GHG emissions for the financial year 1 January 2022 to 31 December 2022, and the 2021 comparative year is contained in the Strategic Report on pages 46 to 47.
Branches	The Company, through its subsidiaries, has established branches in Germany, Hong Kong and Ireland as countries in which the Group operates.
Political donations	During 2022, the Group made no political donations. (2021: no political donations made)
Articles of Association	Changes to the Company's Articles require prior shareholder approval by special resolution. The Company's Articles are available on the Company's website at www.thephoenixgroup.com/about-us/governance
Re-appointment of the Auditors	EY has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 4 May 2023. 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 2022 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 Secretaries during the 2022 financial period were Gerald Watson (until 31 March 2022) and Kulbinder Dosanjh (since 1 April 2022).

Fair, balanced 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 specific provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable/available on the date of notification, 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 9.8.4CR, 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 preparing the Annual Report, 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 2022, 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.

Company law requires the Directors to prepare the consolidated and the Company financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated and Company financial statements in accordance with UK-adopted international accounting standards ('IASs') in conformity with the requirements of the Companies Act 2006. Under company law 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.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the consolidated financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- in respect of the Company financial statements, state whether UK-adopted international accounting standards, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated and the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company and/or the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the Company and the consolidated 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. 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 74 to 76, confirm that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and undertakings included in the consolidation taken as a whole;
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for users (who have a reasonable knowledge of business and economic activities) to assess the Company's position, performance, business model and strategy.

The Strategic Report and the Directors' Report were approved by the Board of Directors on 10 March 2023.

By order of the Board

Andy Briggs
Group Chief Executive Officer

Rakesh Thakrar
Group Chief Financial Officer

10 March 2023

Financials

Independent auditor's report to the members of Phoenix Group Holdings plc

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 2022 and of the Group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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 2022 which comprise:

Group	Parent Company
Consolidated income statement for the year ended 31 December 2022	Statement of financial position as at December 2022
Statement of comprehensive income for the year ended 31 December 2022	Statement of changes in equity for the year ended 31 December 2022
Statement of consolidated financial position as at 31 December 2022	Statement of cash flows for the year ended 31 December 2022
Statement of consolidated changes in equity for the year ended 31 December 2022	Related notes 1 to 22 to the financial statements, including a summary of significant accounting policies
Statement of consolidated cash flows for the year ended 31 December 2022	
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 UK-adopted international accounting standards 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent Company 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.

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.

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. In evaluating the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting we:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 31 March 2024;
- 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 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;
- assessed management's consideration of how solvency and liquidity has been managed in response to the current economic environment and 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;
- challenged the key assumptions, such as expense assumptions underlying mandatory obligations of the Group and property market forecasts up to 31 March 2024, 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 their impact on the going concern assessment;
- assessed the plausibility of available management actions to mitigate the impact of the key risks by considering the success of previous similar management actions and the robustness of the plans in the context of 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 meet 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
- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and considering their compliance with the relevant reporting requirements.

Based on management's assessment, we have observed that the Group continues to have surplus cash and solvency above its Solvency Coverage Ratio in a number of extreme downside scenarios and the Group continues 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 2024.

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 (which includes Phoenix Life Limited and Phoenix Life Assurance Limited), Standard Life Assurance Limited and ReAssure Limited and audit procedures on specific balances for Other Companies (the 'reporting components'). Our scope is explained further below and on page 157 to 158. • The components where we performed full or specific audit procedures accounted for more than 99% (2021: 99%) of the equity and 98% (2021: 98%) of the loss before tax of the Group.
Key audit matters	• Valuation of insurance contract liabilities, comprising the following risk areas: – actuarial assumptions; – actuarial modelling; and – policyholder data. • Valuation of certain complex and illiquid financial investments. • Recoverability of intangible assets arising from the acquisition of ReAssure Limited, Standard Life Assurance Limited and other acquired entities.
Materiality	• Overall Group materiality of £83 million (2021: £116 million) which represents 2% (2021: 2%) of total equity attributable to owners of the Parent ('adjusted 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 company 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 such as recent Internal audit results when assessing the level of work to be performed at each company.

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 as well as the consolidation adjustments. The Other Companies include the Phoenix Life and Standard Life service companies, ReAssure Life Limited, ReAssure UK Services Limited, ReAssure MidCo Limited, ERIP Limited Partnership and Standard Life International Designated Activity Company ('SLIDAC').

Independent auditor's report continued

Four of the reporting components were audited by component teams as set out below:

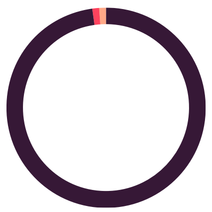
Component	Scope	Auditor
Phoenix Life Division (includes Phoenix Life Limited and Phoenix Life Assurance Limited)	Full	EY component team
Standard Life Assurance Limited	Full	EY component team
ReAssure Limited	Full	EY component team
Group Function	Full	EY primary team
Other Companies	Specific (including 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 component, we performed audit procedures on specific accounts of Phoenix Life and Standard Life service companies (cash and cash equivalents, provisions, accruals and deferred income, administrative expenses excluding acquisition costs), ReAssure Life Limited (cash and cash equivalents, collective investment schemes), ReAssure UK Services Limited (administrative expenses excluding acquisition costs), ReAssure MidCo Limited (pension scheme surplus) and ERIP Limited Partnership (cash and cash equivalents, derivative liabilities). We also instructed the SLIDAC component audit team to perform specified procedures over insurance contract liabilities.

The reporting components where we performed audit procedures accounted for 99% (2021: 99%) of the Group's equity and 98% (2021: 98%) of the Group's loss before tax. For the current year, the full scope components contributed 98% (2021: 87%) of the Group's equity and 94% (2021: 75%) of the Group's loss before tax. The specific scope components, including the component with specified procedures contributed 1% (2021: 12%) of the Group's equity and 4% (2021: 23%) of the Group's loss 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.

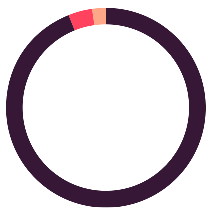
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Equity



Full Scope	98%
Specific scope	1%
Out of scope	1%

Loss before tax



Full Scope	94%
Specific scope	4%
Out of scope	2%

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 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.

The primary audit team followed a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visited each of the full scope components. For all full scope components, in addition to the component visits, 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 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 components, the primary audit team have reviewed the audit procedures performed by the component teams on the specific accounts, by reviewing relevant workpapers and holding meetings with the component teams as necessary.

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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on their operations will be from financial assets and in insurance and investment contract liabilities. These are explained on pages 48 to 51 in the required Task Force for Climate related Financial Disclosures, and on page 59 in the principal risks and uncertainties.

The Group has also explained their climate commitments on pages 20 to 21. All of these disclosures form part of the 'Other information' rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit in line with our responsibilities on 'Other information'.

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

As explained in note A3.7 within the accounting policies, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows in accordance with UK-adopted international accounting standards. As explained in the note management believe that reasonably possible changes arising from climate risks would only have a limited impact on asset and liability valuations at the year-end date.

Our audit effort in considering climate change was focused on validating this assertion, through considering the potential effects of climate risks on liability and asset valuations and associated disclosures where values are determined through modelling future cash flows. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine whether any risks of material misstatement in the financial statements from climate change needed to be considered in our audit. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group have stated their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Group are currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore, as set out above, the potential impacts are not fully incorporated in these financial statements.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to materially impact a key audit matter.

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.

Risk

Valuation of insurance contract liabilities (£103.4bn; 2021: £130.7bn)

Refer to the Audit Committee Report (page 101); Critical accounting estimates (page 176); Accounting policies and note F1 of the consolidated financial statements (pages 230 to 232)

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
- policyholder 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.

Independent auditor's report continued

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions Refer to the Audit Committee Report (page 101); There has been no change in our assessment of this risk from the prior year. 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. Given the recent economic volatility we place additional focus on future economic assumptions such as inflation assumptions at the 2022 year-end date.	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; • challenged and assessed management's decisions on the inclusion or exclusion of data relating to COVID-19 when setting individual assumptions, including longevity, mortality, morbidity and persistency; • in respect of trend longevity, 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 considering an impact of the recent economic volatility on the components of expense inflation. Our focus has been on the change in the nature of the cost base arising in the increase in volumes of new insurance business written. We have challenged the assumed development of expenses including inflation across the AOP period, the allocation of those expenses between acquisition and maintenance and the resulting calculation of unit costs, as well as the inclusion of benefits arising from planned future management actions; • 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 and specific scope audit procedures over this risk area in four components representing 100% of the risk amount.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial modelling The migration of the ReAssure business to a new actuarial model increases the risk of error this year. We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £92bn of the £103.4bn (2021: over £120bn of £130.7bn) 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; ii) liabilities modelled outside the core actuarial modelling systems; and iii) the appropriateness of the core actuarial model. In addition, the migration of the ReAssure business to a new actuarial model is considered a key risk area for 2022.	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; • 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; • with respect to the migration of ReAssure business onto a new model we tested management's process with a focus on both the robustness of the outputs and ensuring that the differences between current and previous models were understood; • 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 the 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. In addition we also perform an independent valuation of a sample of insurance contract liabilities which are modelled outside the core actuarial system. We performed full and specific scope audit procedures over this risk area in four components representing 100% 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.

Independent auditor's report continued

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Policyholder 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; • focussed our testing on the changes to the data process as a result of the migration of the ReAssure business to a new actuarial model; • for Outsourced Service Providers ('OSP') where we have placed reliance on the ISAE 3402 Service Organisation Controls ('SOC') reports, we have reviewed the ISAE 3402 SOC reports where relevant to determine the impact of any identified control exceptions; • for OSPs where we do not receive a ISAE 3402 SOC 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. We evaluated the accuracy of policyholder data by agreeing a sample back to the policyholder documents. We performed full and specific scope audit procedures over this risk area in four components representing 100% 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 £3.9bn; 2021: £4.2bn); (Modelled debt securities £6.3bn; 2021: £7.0bn) There has been no change in our assessment of this risk from the prior year. Refer to the Audit Committee Report (page 101); Critical accounting estimates (page 176); Accounting policies and notes E1 and E2 of the consolidated financial statements (pages 201 to 213). 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 with other inputs to estimate their value. We consider that the key risks on the valuation of ERM financial investments relate 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 the key risks related to valuation of modelled debt securities to be: i) the 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) the reasonableness of credit ratings considering the ongoing impact of COVID-19. Given the recent economic volatility we place additional focus on economic assumptions.	We used EY valuation specialists and actuaries to test the valuation of ERM financial investments and modelled debt securities. To obtain sufficient audit evidence to conclude on the valuation of ERM financial investments, 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 confirmations; • 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 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 were appropriate considering the current economic volatility; and • developed our own independent model to value the ERM financial investments 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 ISAE 3402 SOC report of the OSPs covering the period to 30 September 2022, including those controls over the valuation of modelled debt securities outsourced to the third party, and determined the impact of any identified control exceptions; • obtained the bridging letter for the period 1 October 2022 to 31 December 2022 to review that the controls over the valuation of modelled debt securities were operating during the period; • inspected evidence of the operation of management's oversight controls over the OSPs; • understood the valuation process of modelled debt securities applied by the OSP of the Phoenix Life Division, Standard Life Assurance Limited and ReAssure Limited components and assessed the appropriateness of any methodology and assumption changes during the year, including the impact of the current economic volatility on economic assumptions; • for modelled debt securities overseen by the 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 the 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; • 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 on securities by reviewing the 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.

Independent auditor's report continued

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of AVIF intangible assets arising from the acquisition of ReAssure Limited, Standard Life Assurance Limited, and other associated entities (AVIF £3,835m; 2021: £4,323m) Refer to the Audit committee report (page 101), critical accounting estimates (page 176), the accounting policies and note G2 of the consolidated financial statements (pages 256 to 259) 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. 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 £3.0bn. These acquisitions gave rise to the recognition of intangible assets relating to the acquired in force business ('AVIF') 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. Recoverability assessment of these intangible assets involves consideration of a number of judgmental and sensitive assumptions such as: • market movements, especially those arising from the current economic volatility and their impact on economic assumptions such as cost of capital; and • significant changes to core valuation assumptions, being: lapses, longevity, late retirements. 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 AVIF intangible assets arising from the acquisition of ReAssure and 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 design and implementation of the completeness and accuracy of the data used in the recoverability assessment; • challenged management's assessment of impairment indicators by considering current market factors including the recent economic volatility and assumption changes not modelled in the fair value exercise at the acquisition date and assessed their impact on the ReAssure and Standard Life AVIF values as at 31 December 2022; and • obtained management's expectations of future profitability of the acquired entities, assessed appropriateness of the models used to estimate the fair value and value in use and challenged the assumptions applied by management by comparing key assumptions and judgments with our independent view and experience of the wider market.	Based on our procedures performed on the recoverability of intangible assets arising from the acquisition of ReAssure and Standard Life, we are satisfied that there is no impairment necessary as at 31 December 2022. In addition, we consider the sensitivity ranges disclosed in the Annual Report and Accounts to be appropriate given current economic volatility.

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

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £83 million (2021: £116 million), which is 2% (2021: 2%) of adjusted Group equity.

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 £139 million (2021: £148 million), which is 2% (2021: 2%) of equity 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.

Starting basis	• Starting point – £5,187m (Total equity) • Based on 31 December 2022
Adjustments	• Details of adjustments – £1,026m • Removal of NCI and Tier 1 loan notes
Materiality	• Totals £4,161m (Adjusted equity) • Materiality of £83m (2% of equity)

During the course of our audit, we reassessed initial materiality for the Group from £100 million to £83 million due to a decrease in the Group's total equity for 31 December 2022 between our forecast total equity (upon which our initial materiality was based) and the final total equity for 31 December 2022. We considered the impact of this on the extent of our audit procedures.

We also reassessed initial materiality for the Parent Company from £156 million to £139 million due to a decrease in the Parent Company's total equity for 31 December 2022 between our forecast total equity (upon which our initial materiality was based) and the final total equity for 31 December 2022. We considered the impact of this on the extent of our audit procedures.

Performance materiality

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 judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £41 million (2021: £58 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 £8 million to £27 million (2021: £12 million to £32 million).

Reporting threshold

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 £4 million (2021: £6 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 153 and 307 to 326, 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 this gives rise to 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.

Independent auditor's report continued

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the Directors' Remuneration 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
We have reviewed 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 by the Listing Rules.

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 149;
- Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 68;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 69;
- Directors' statement on fair, balanced and understandable set out on page 151;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 100; and;
- The section describing the work of the audit committee set out on page 96 to 101.

Responsibilities of Directors
As explained more fully in the Directors' statement of responsibilities set out on page 153, 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 its Committees; 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 Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. 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 continued to adopt a hybrid model throughout 2022.
- The fraud risk was considered to be higher within the valuation of insurance contract liabilities We considered management override risk to be higher in this area 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 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 and non-routine journals; and
- Evaluating the business rationale for significant and/or unusual transactions.

- On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgement involved on the recognition and measurement of the transaction price for all material revenue streams.
- 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, and inspecting significant correspondence with the PRA and FCA.
- 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 frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters we are required to address
- Following the recommendation from the Audit Committee, we were appointed by the Company on 13 December 2018 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 five years, covering the years ending 31 December 2018 to 2022.
- 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.

Stuart Wilson
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 March 2023

Consolidated income statement

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Gross premiums written		7,094	7,455
Less: premiums ceded to reinsurers	F3	(1,727)	(2,079)
Net premiums written		5,367	5,376
Fees and commissions	C1	951	1,001
Total revenue, net of reinsurance payable		6,318	6,377
Net investment income	C2	(38,149)	18,001
Other operating income		82	76
Gain on completion of abrdn plc transaction	A6.1	–	110
Loss on disposal of Ark Life	A6.2	–	(23)
Net income		(31,749)	24,541
Policyholder claims		(9,392)	(9,656)
Less: reinsurance recoveries		1,693	1,597
Change in insurance contract liabilities		27,645	3,076
Change in reinsurers' share of insurance contract liabilities		(2,450)	(177)
Transfer from unallocated surplus	F2	378	106
Net policyholder claims and benefits incurred		17,874	(5,054)
Change in investment contract liabilities		13,366	(16,812)
Amortisation and impairment of acquired in-force business	G2	(505)	(577)
Amortisation of other intangibles	G2	(21)	(20)
Impairment of goodwill	G2	–	(47)
Administrative expenses	C3	(2,412)	(2,056)
Net income under arrangements with reinsurers	F3.3	427	22
Net income attributable to unitholders		410	(185)
Total operating expenses		29,139	(24,729)
Loss before finance costs and tax		(2,610)	(188)
Finance costs	C5	(230)	(242)
Loss for the year before tax		(2,840)	(430)
Tax credit/(charge) attributable to policyholders' returns	C6	579	(258)
Loss before the tax attributable to owners		(2,261)	(688)
Tax credit/(charge)	C6	1,078	(279)
Less: tax attributable to policyholders' returns	C6	(579)	258
Tax credit/(charge) attributable to owners	C6	499	(21)
Loss for the year attributable to owners		(1,762)	(709)
Attributable to:			
Owners of the parent		(1,829)	(837)
Non-controlling interests	D5	67	128
		(1,762)	(709)
Earnings per ordinary share			
Basic (pence per share)	B3	(185.2)p	(86.4)p
Diluted (pence per share)	B3	(185.2)p	(86.4)p

Statement of comprehensive income

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Loss for the year		(1,762)	(709)
Other comprehensive income/(expense):			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value gains arising during the year	D3	181	44
Reclassification adjustments for amounts recognised in profit or loss	D3	(186)	(36)
Exchange differences on translating foreign operations		36	(45)
Reclassification of foreign currency translation reserve on disposal of Ark Life	A6.2	–	14
Items that will not be reclassified to profit or loss:			
Remeasurement of owner-occupied property	G3	(5)	–
Remeasurements of net defined benefit asset/liability	G1	940	281
Tax charge relating to other comprehensive income items	C6	(280)	(138)
Total other comprehensive income for the year		686	120
Total comprehensive expense for the year		(1,076)	(589)
Attributable to:			
Owners of the parent		(1,143)	(717)
Non-controlling interests	D5	67	128
		(1,076)	(589)

Statement of consolidated financial position
As at 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
Pension scheme asset	G1	14	36
Reimbursement rights	G1	205	212
Intangible assets			
Goodwill		10	10
Acquired in-force business		3,835	4,323
Other intangibles		211	232
	G2	4,056	4,565
Property, plant and equipment	G3	125	130
Investment property	G4	3,727	5,283
Financial assets			
Loans and deposits		279	475
Derivatives	E3	4,068	4,567
Equities		76,737	86,981
Investment in associate		329	431
Debt securities		83,116	104,761
Collective investment schemes		75,389	85,995
Reinsurers' share of investment contract liabilities		9,063	9,982
	E1	248,981	293,192
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	6,142	8,587
Reinsurance receivables		89	69
Insurance contract receivables		66	70
		6,297	8,726
Deferred tax asset	G8	158	–
Current tax receivable	G8	519	419
Prepayments and accrued income		432	373
Other receivables	G5	4,611	1,805
Cash and cash equivalents	G6	8,839	9,112
Assets classified as held for sale	A6.1	7,205	9,946
Total assets		**285,169**	333,799

Approved by the Board on 10 March 2023.

Andy Briggs
Chief Executive Officer

Rakesh Thakrar
Chief Financial Officer

Company registration number 11606773.

	Notes	2022 £m	2021 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	D1	100	100
Share premium		10	6
Shares held by employee benefit trust	D2	(13)	(12)
Foreign currency translation reserve		107	71
Merger relief reserve	D1	1,819	1,819
Other reserves	D3	46	56
Retained earnings		2,092	3,775
Total equity attributable to owners of the parent		4,161	5,815
Tier 1 Notes	D4	494	494
Non-controlling interests	D5	532	460
Total equity		5,187	6,769
Liabilities			
Pension scheme liability	G1	2,520	3,103
Insurance contract liabilities			
Liabilities under insurance contracts	F1	102,016	128,864
Unallocated surplus	F2	1,344	1,801
		103,360	130,665
Financial liabilities			
Investment contracts		143,845	160,417
Borrowings	E5	3,980	4,225
Deposits received from reinsurers		2,598	3,569
Derivatives	E3	5,875	1,248
Net asset value attributable to unitholders		2,978	3,568
Obligations for repayment of collateral received		1,706	3,442
	E1	160,982	176,469
Provisions	G7	234	235
Deferred tax liabilities	G8	660	1,399
Reinsurance payables		245	143
Payables related to direct insurance contracts	G9	1,964	1,864
Current tax payable	G8	34	19
Lease liabilities	G10	92	99
Accruals and deferred income	G11	566	567
Other payables	G12	965	721
Liabilities classified as held for sale	A6.1	8,360	11,746
Total liabilities		279,982	327,030
Total equity and liabilities		285,169	333,799

Statement of consolidated changes in equity
As at 31 December 2022

	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 2022	100	6	(12)	71	1,819	56	3,775	5,815	494	460	6,769
(Loss)/profit for the year	–	–	–	–	–	–	(1,829)	(1,829)	–	67	(1,762)
Other comprehensive income/(expense) for the year	–	–	–	36	–	(10)	660	686	–	–	686
Total comprehensive income/(expense) for the year	–	–	–	36	–	(10)	(1,169)	(1,143)	–	67	(1,076)
Issue of ordinary share capital, net of associated commissions and expenses	–	4	–	–	–	–	–	4	–	–	4
Dividends paid on ordinary shares	–	–	–	–	–	–	(496)	(496)	–	–	(496)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(10)	(10)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	16	16	–	–	16
Shares distributed by the employee benefit trust	–	–	12	–	–	–	(12)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(13)	–	–	–	–	(13)	–	–	(13)
Increase in non-controlling interests	–	–	–	–	–	–	–	–	–	15	15
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(22)	(22)	–	–	(22)
At 31 December 2022	100	10	(13)	107	1,819	46	2,092	4,161	494	532	5,187

Statement of consolidated changes in equity
As at 31 December 2021

	Share capital (note D1) £m	Share premium (note D1) £m	Shares held by 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 2021	100	4	(6)	102	1,819	48	4,970	7,037	494	341	7,872
(Loss)/profit for the year	–	–	–	–	–	–	(837)	(837)	–	128	(709)
Other comprehensive (expense)/income for the year	–	–	–	(31)	–	8	143	120	–	–	120
Total comprehensive (expense)/income for the year	–	–	–	(31)	–	8	(694)	(717)	–	128	(589)
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	–	(482)	(482)	–	–	(482)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(9)	(9)
Credit to equity for equity-settled share based payments	–	–	–	–	–	–	14	14	–	–	14
Shares distributed by employee benefit trust	–	–	10	–	–	–	(10)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(16)	–	–	–	–	(16)	–	–	(16)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2021	100	6	(12)	71	1,819	56	3,775	5,815	494	460	6,769

Statement of consolidated cash flows
For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	I2	1,019	(871)
Taxation paid		(153)	(149)
Net cash flows from operating activities		866	(1,020)
Cash flows from investing activities			
Proceeds from completion of abrdn plc transaction	A6.1	–	115
Disposal of Ark Life, net of cash disposed	A6.2	–	189
Net cash flows from investing activities		–	304
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		4	2
Ordinary share dividends paid	B4	(496)	(482)
Dividends paid to non-controlling interests	D5	(10)	(9)
Repayment of policyholder borrowings	E5.2	(32)	(18)
Repayment of shareholder borrowings	E5.2	(450)	(322)
Repayment of lease liabilities	G10	(14)	(16)
Proceeds from new policyholder borrowings, net of associated expenses	E5.2	61	17
Coupon paid on Tier 1 Notes		(29)	(29)
Interest paid on policyholder borrowings		(1)	–
Interest paid on shareholder borrowings		(215)	(237)
Net cash flows from financing activities		(1,182)	(1,094)
Net decrease in cash and cash equivalents		(316)	(1,810)
Cash and cash equivalents at the beginning of the year (before reclassification of cash and cash equivalents to held for sale)		9,188	10,998
Less : cash and cash equivalents of operations classified as held for sale	A6.1	(33)	(76)
Cash and cash equivalents at the end of the year		8,839	9,112

Notes to the consolidated financial statements

A. Significant accounting policies

A1. Basis of preparation

The consolidated financial statements for the year ended 31 December 2022 set out on pages 168 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 10 March 2023.

The consolidated financial statements have been prepared under the historical cost convention 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 UK-adopted international accounting standards ('IASs').

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'). The considerations and approach are consistent with the provisions of the FRC's Guidance on risk Management, Internal control and Related Financial and Business Reporting issued in September 2014. Further details of the going concern assessment for the period to 31 March 2024 are included in the Directors' Report on page 149.

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 for 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 the 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.

Notes to the consolidated financial statements
continued

A. Significant accounting policies continued

A2.2. Other operating income

Other operating income includes income from all other operating activities which are incidental to the principal activities of the Group.

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 and valuation of intangibles on initial recognition.

The application of critical accounting judgements that could have the most significant effect on the recognised amounts include classification of contracts to be accounted for as insurance or investment contracts, recognition of pension surplus, the determination of adjusted operating profit, 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 235 in note F4.

Classification of contracts as insurance is based upon an assessment of the significance of insurance risk transferred to the Group. Insurance contracts are defined by IFRS 4 as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

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. 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.

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 Adjusted operating profit

Adjusted operating profit is the Group's non-GAAP measure of performance and provides stakeholders with a comparable measure 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 adjusted operating profit based on risk-free yields at the start of the financial year, as detailed in note B2, and as to whether items are included within adjusted operating profit or excluded as an adjustment to adjusted operating profit in accordance with the accounting policy detailed in note B1. Items excluded from adjusted operating profit are referred to as 'non-operating items'.

A3.6 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.

A3.7 How Climate risk affects our accounting judgments and estimates

In preparation of these financial statements, the Group has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance and investment contract liabilities and goodwill and other intangible assets.

Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on accounting judgments and estimates for the current period.

The majority of the Group's financial assets are held at fair value and use quoted market prices or observable market inputs in their valuation. The use of quoted market prices and market inputs to determine fair value reflects current information and market sentiment regarding the effect of climate risk. For the valuation of level 3 financial instruments, there are no material unobservable inputs in relation to climate risk. Note E6 provides further risk management disclosures in relation to financial risks including sensitivities in relation to credit and market risk. In addition, further details on managing the related climate change risks are provided in the Task Force for Climate-related Financial Disclosures ('TCFD') on page 48 of the Annual Report and Accounts.

Insurance and investment contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. Due to the level of annuities written by the Group, it is particularly exposed to longevity risk. At 31 December 2022 there are no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Group's results to annuitant longevity and other key insurance risks are set out in note F4.

The assessment of impairment for goodwill and intangible assets is based on value in use calculations. Value in use represents the value of future cash flows and uses the Group's three year annual operating plan and the expectation of long-term economic growth beyond this period. The three year annual operating plan reflects management's current expectations on competitiveness and profitability, and reflects the expected impacts of the process of moving towards a low-carbon economy. Note G2 provides further details on goodwill and other intangible assets and on impairment testing performed.

A4. Adoption of new accounting pronouncements in 2022

In preparing the consolidated financial statements, the Group has adopted the following amendments effective from 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37): The amendments clarify that when performing an onerous contracts assessment both incremental costs to fulfil a contract and an allocation of other direct costs should be included when determining whether that contract is onerous.
- Reference to the Conceptual Framework (Amendments to IFRS 3): In addition to updating references to the conceptual framework within IFRS 3, the amendments also add a requirement for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to determine whether at the acquisition date a present obligation exists as a result of past events.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16): The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Such sales proceeds and related costs are recognised in profit or loss; and
- Annual Improvements (2018–2020 Cycle):
  - Subsidiary as a First-time Adopter (Amendments to IFRS 1);
  - Fees in the '10 per cent' Test for De-recognition of Financial Liabilities (Amendments to IFRS 9);
  - Lease Incentives (Amendments to IFRS 16); and
  - Taxation in Fair Value Measurements (Amendments to IAS 41).

None of the above amendments to standards are considered to have a material effect on these consolidated financial statements.

Notes to the consolidated financial statements
continued

A. Significant accounting policies continued

A5. New accounting pronouncements not yet effective

The IASB has issued the following standards or amended standards which apply from the dates shown. The Group has decided not to early adopt any of these standards or amendments where this is permitted.

IFRS 17 Insurance Contracts (1 January 2023)

IFRS 17 was issued by the International Standards Board in May 2017 and amended in June 2020. The standard was endorsed by the UK Endorsement Board in May 2022. IFRS 17 is effective from 1 January 2023.

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.

In June 2022, the IFRS Interpretations Committee ('IFRIC') provided its final agenda decision on the 'Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17', a non-objection from the International Accounting Standards Board was provided in July 2022. The methodology for coverage units determined by the Group and set out in the 'Coverage units' section below is compliant with this IFRIC final agenda decision.

Identifying contracts in scope of IFRS 17

IFRS 17 applies to insurance contracts (including reinsurance contracts) an entity issues, reinsurance contracts an entity holds and investment contracts with discretionary participation features an entity issues provided it also issues insurance contracts. The scope of IFRS 17 for the Group is materially consistent with that of IFRS 4. Investment contracts without discretionary participation features ('DPF') will be measured under IFRS 9. The following requirements apply to reinsurance contracts unless stated otherwise.

IFRS 17 sets out criteria for when an investment component is distinct and may be separated from the host insurance contract. Following the application of these criteria the Group has concluded for the majority of its hybrid investment contracts with DPF within the scope of IFRS 17, the unit-linked component does not meet the definition of a distinct investment component so will no longer be accounted for as a financial instrument and will fall within the scope of IFRS 17. Hybrid investment contracts with DPF are those contracts which allow policyholders to invest in both with-profit and unit-linked fund options within a single contract.

Level of aggregation

IFRS 17 requires that contracts are divided into groups for the purposes of recognition and measurement. Portfolios of contracts are identified by grouping together contracts which have similar risks and are managed together. These groups are then further divided into cohorts based on their expected profitability. Contracts which are onerous at inception cannot be grouped with contracts which are profitable at inception. Contracts which are issued more than one year apart are not permitted to be included within the same cohort, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

Measurement

The standard introduces three measurement approaches, of which two, the general model and the variable fee approach, are applicable to the Group's business. The main features of these models are the measurement of an insurance contract as the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment, remeasured at each reporting period using current assumptions, and a contractual service margin ('CSM'). Reinsurance contracts held are measured using the general model, irrespective of the measurement model applied to the underlying contracts reinsured.

The risk adjustment represents the compensation the Group requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk as the obligations under the insurance contract are fulfilled.

The CSM represents the unearned profit of a group of insurance contracts and is recognised in profit or loss as the insurance and/or investment service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the consolidated income statement. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the consolidated income statement. This treatment of profits and losses in respect of services is broadly consistent with the principles of IFRS 15 and IAS 37 applicable to other industries. For reinsurance contracts held, the CSM represents the net gain or net loss of the contract and is recognised in profit or loss as the service is provided using coverage units.

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. For certain contracts with participating features the variable fee approach is applied, this allows changes in economic assumptions and experience to adjust the CSM as well as non-economic assumptions, reflecting the variable nature of the entity's earnings driven by investment returns.

Significant judgements and estimates

Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or in which the Group has a substantive obligation to provide services to the policyholder.

The adoption of IFRS 17 results in three main areas where contract boundaries differ from current practice:

- Some unit-linked and with-profit contracts contain a guaranteed annuity option, which allows the policyholder to convert the maturity benefit to an immediate annuity at a predetermined rate. The Group currently places a value on the guaranteed annuity option at maturity, but does not include within its measurement the cash flows associated with immediate annuity until the option is exercised. Under IFRS 17, the cash flows related to the immediate annuity will fall within the boundary of the contract as the Group does not have the practical ability to reprice the contract on maturity.
- The Group has issued renewable term assurance policies with varying terms. Where the Group has the practical ability to reassess the risks of the policyholders at individual contract or portfolio level the contract boundary ends at the earliest renewal date and the renewal will be treated as a new contract. Where the Group does not have the practical ability to reassess the risk, future renewals of these contracts on their guaranteed terms will be within the contract boundary.
- Some of the Group's reinsurance contracts cover underlying contracts issued on a risk-attaching basis and provide unilateral rights to both the Group and the reinsurer to terminate the attachment of new contracts at any time by giving notice within a specified time period, for example three months. Currently the cash flows included in the measurement of reinsurance contracts considers only the underlying contracts ceded at the valuation date. However, under IFRS 17, the contract boundary includes underlying contracts expected to be issued and ceded during the period from the valuation date to the end of the reinsurance notice period.

Discount rates

The Group will determine risk-free discount rates using the current market prices of interest rate swaps in each currency where the market is deep, liquid and transparent. The Group primarily writes contracts denominated in Pounds Sterling and Euros. The yield curve will be interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations.

The discount rates for annuity business will be determined by a 'top-down' approach using a reference portfolio of assets to determine an uplift to be applied to the risk-free discount rate curve.

The discount rates for unit-linked business and with-profit business will be determined by a 'bottom-up' approach, using a risk-free discount rate curve adjusted to reflect the characteristics of the liabilities such as illiquidity.

With-profit inherited estate

The Group has a number of with-profit funds where surpluses are shared between the policyholders and the shareholders. All such funds are closed to new business. These funds typically have an inherited estate, being a surplus of assets over those needed to meet the liabilities of current policyholders. As these funds are closed to new business the surplus will be allocated to existing policyholders and the Group has determined it appropriate to allocate the expected future payments from the inherited estate to specific groups of contracts within the measurement of the best estimate cash flows. This results in the shareholders share of the inherited estate being recognised through the CSM. At transition, to the extent that services have been provided in previous periods, an element of the inherited estate will be recognised in Retained Earnings, with the remainder recognised within the CSM and released to the consolidated income statement in future periods in line with coverage units. The adoption of IFRS 17 will not change the point at which the shareholder will become entitled to receive its share of the inherited estate, which will continue to be at the point where bonuses are declared to policyholders.

Risk adjustment

The risk adjustment for non-financial risk will reflect the compensation that the Group requires for bearing non-financial risk. The Group will apply a confidence level technique. The risk adjustment will be allocated to groups of contracts based on an analysis of the risk profiles of the groups, reflecting the effects of the diversification benefits between Group entities. The Group will determine the risk adjustment using a one year time horizon, consistent with the time horizon used for Solvency II, the key metric underlying how the Group is managed.

To determine the risk adjustment for reinsurance contracts, the Group will apply its approach both gross and net of reinsurance and determine the amount of risk being transferred to the reinsurer as the difference between the two results.

Notes to the consolidated financial statements
continued

A. Significant accounting policies continued
A5. New accounting pronouncements not yet effective continued
IFRS 17 Insurance Contracts (1 January 2023) continued
Significant judgements and estimates
Coverage units
The CSM of a group of contracts is recognised in profit or loss to reflect services provided in the period. The number of coverage units is updated at each valuation date and reflects the quantity of services provided by the contracts within a group considering both quantity of benefits provided and the length of the expected coverage period.

The Group will determine the quantity of benefits, and therefore the coverage units as follows:

Type of business	Coverage unit (quantity of benefits)
Term life	Sum assured in-force
Endowment	Sum assured in-force
Whole of life	Sum assured in-force
Other protection products	Sum assured in-force
Immediate annuity	Annuity payments in each period
Unit linked	Annual Management Charge plus insurance charges
Conventional with-profit ('CWP') & Unitised with-profit ('UWP')	Maximum of the guaranteed benefit and asset share

Reinsurance contracts held will use coverage units consistent with the underlying policies reinsured.

Transition
IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a modified retrospective approach or a fair value approach to determine the contractual service margin.

The primary books of business that will be measured using the fully retrospective approach are:
- External Bulk Purchase Annuities written since 2018, and their associated reinsurance contracts. Bulk Purchase Annuities, and their associated reinsurance contracts, related to the Group's pension schemes will continue to be eliminated on consolidation and the liabilities of the scheme reported under IAS 19.
- Annuity and conventional non-profit business acquired as part of the purchase of the ReAssure business in 2020, with the date of inception of these contracts being the acquisition date.
- New business within the scope of IFRS 17 written by the Group's SunLife business from 2018, and the Group's remaining new business from 1 January 2021.

The remainder of the Group's business will be transitioned using the fair value approach.

Key factors considered in determining whether the fully retrospective approach is impracticable include:
- The ability to obtain assumptions and data at the required level of granularity, without the introduction of material use of hindsight, particularly in relation to contracts within acquired businesses and where the Group's financial reporting metrics did not require such information.
- The availability and usability of historic data given the significant integration work performed by the Group on both its policy administration and actuarial modelling systems where re-platforming from legacy systems onto a unified platform has been carried out.
- The significant level of regulatory change experienced by the insurance industry, such as Solvency II, which impacts on the level of change undergone by both legacy and current policy administration and actuarial modelling systems.

Fair value approach
The fair value approach determines the CSM (or loss component) at 1 January 2022 as the difference between the fair value of a group of contracts and the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment.

The fair value determined by the Group will use cash flows with contract boundaries consistent with IFRS 17 requirements and be broadly consistent with those used to determine the IFRS 17 liabilities. The measurement of the fair value of contracts will include items taken into consideration by a market participant but which are not included in the IFRS 17 measurement of contracts, such as a risk premium to reflect a market participant's view of uncertainty inherent in the contract cash flows being valued and a profit margin.

For groups of contracts measured using the fair value approach, the cohorts will contain contracts issued more than one year apart.

Presentation and disclosure
The introduction of IFRS 17 will simplify the presentation of the statement of financial position. It requires the presentation of groups of insurance (or reinsurance) contracts that are in an asset position separately from those in a liability position. All rights and obligations arising from a portfolio of contracts will be presented within the insurance or reinsurance contract balance, as such, balances such as payables related to direct insurance contracts and reinsurance receivables will no longer be presented separately.

The presentation of the consolidated income statement will change more significantly with IFRS 17 setting out how components of the profitability of contracts are disaggregated into an insurance service result and insurance finance income/expense. The insurance service result reflects the consideration earned in exchange for the provision of services in relation to the group of IFRS 17 contracts issued. The insurance financial income/expense reflects changes in the carrying amount of the group of insurance contracts that relate to financial risks. It comprises the effect of the time value of money as well as the effect of financial risks and changes in financial risks.

IFRS 17 also requires extensive disclosures, both quantitative and qualitative, in relation to:
- Amounts recognised in the financial statements, including reconciliations showing how the net carrying amounts of contracts changed during the period;
- Significant judgements and changes in these judgements; and
- The nature and extent of risks that arise from contracts within the scope of IFRS 17.

Impact assessment
The total profit recognised over the lifetime of contracts within the scope of IFRS 17 will not change from the total profit recognised under IFRS 4 and will continue to be recognised in profit and loss. The pattern of profit emergence under IFRS 17 will primarily be driven by the timing of the recognition of the risk adjustment and CSM. The risk adjustment is released to profit and loss as the related risk expires and the CSM is released as services are provided.

The estimated impact of adopting IFRS 17 as at 1 January 2022 is total equity attributable to owners of the parent remains broadly neutral when compared with the reported value at 1 January 2022 of £5.8 billion, and a CSM (net of reinsurance) of at least £2.0 billion is established.

The broadly neutral impact to total equity attributable to owners of the parent is a result of a number of offsetting factors. This includes the following factors which have a positive impact on equity:
- By moving to an IFRS 17 best estimate of future cash flows, prudent margins currently recognised on insurance contract liabilities under IFRS 4 are released.
- Under IFRS 4, an unallocated surplus liability is held in respect of future transfers to shareholders from the Group's with-profit funds. On application of IFRS 17, shareholder earnings on with-profit and unit-linked business are recognised by reflecting only cash flows due to policyholders within the best estimate of liabilities.

The reduction in best estimate liabilities arising from the above factors is offset by the following items, which reduce equity:
- The recognition of a risk adjustment and CSM.
- The derecognition of the separate acquired value of in-force business (AVIF) asset associated with insurance contracts previously recognised under IFRS 4.

The impact provided above is preliminary as not all transition work has been finalised at the date of issuing these consolidated financial statements. The actual impact of adopting IFRS 17 on 1 January 2023 with a transition date of 1 January 2022 may change as the Group continues to embed and refine the new systems, processes and controls required. This impact assessment has been estimated under an interim control environment with models that continue to undergo validation. The implementation of the end state control environment will continue as the Group introduces business as usual controls throughout 2023. The new accounting policies, assumptions, judgements and estimations employed in producing IFRS 17 results are subject to change until the Group finalises its first IFRS 17 financial statements for 2023 reporting.

At the date of issuing these consolidated financial statements, the Group continues its preparation of the year end 31 December 2022 comparative financial information applying IFRS 17. As a result it was not practicable to reliably quantify the impact of IFRS 17 on the results for the year ended 31 December 2022.

Implementation project status
The Group's implementation project continued throughout 2022 with a focus on continuing to develop and embed the operational capabilities required to implement IFRS 17 including data, systems and business processes, and determining the transition balance sheet as at 1 January 2022. The focus for 2023 is on finalising the transition balance sheet and the 2022 comparatives required for 2023 reporting, and implementation of the end state control environment.

Notes to the consolidated financial statements
continued

A. Significant accounting policies continued

A5. New accounting pronouncements not yet effective continued

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. In addition, the general hedge accounting requirements have been updated under IFRS 9 to better reflect risk management activities of the Group.

The Group has to date 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 completed its assessment of the impacts of adopting IFRS 9. The classification of the Group's financial assets has been reviewed and it has been determined that financial assets backing insurance liabilities will continue to be measured at fair value through profit or loss ('FVTPL'). The business model assessment concluded that these assets are actively managed and evaluated on a fair value basis and as such would be mandatorily classified at FVTPL. It is not expected that use of the fair value option, as permitted by IFRS 9, to designate assets as FVTPL to avoid an accounting mismatch will be required.

The new standard replaces the incurred loss model with an expected credit loss model for financial assets measured at amortised cost or at FVOCI. The proportion of financial assets classified at amortised cost is relatively small as a proportion of the total and due to the credit risk profile of these assets being investment grade, the expected credit loss on these assets is not expected to be material and therefore there will be limited financial impact on the Group.

The Group will be adopting the revised general hedge accounting requirements of IFRS 9. The existing hedging relationships for which hedge accounting is currently adopted (Tier 1/Tier 2 notes and cross currency swaps) will continue to be accounted for as cash flow hedges. The effectiveness testing processes will be revised to include qualitative testing on a prospective basis.

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.

Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*) (1 January 2023)

The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments are not expected to have any impact on the Group.

Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) (1 January 2023)

The amendments replace the definition of a 'change in accounting estimates' with a definition of 'accounting estimates'. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the Standard by including a number of clarifications. These amendments are not expected to have any impact on the Group.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*) (1 January 2023)

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences. There will potentially be some additional disclosures required in relation to the Group's leasing arrangements as a result of implementing these amendments.

Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*) (1 January 2024)

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.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 *Leases*) (1 January 2024)

The amendments relate to how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction. On initial recognition, the seller-lessee is required to include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction. After initial recognition, they are required to apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognised. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation. These amendments are not expected to have any impact on the Group.

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.

On 31 January 2020, the UK left the EU and effective from 1 January 2021, the European Commission no longer endorses IFRSs for use in the UK. UK legislation provides that all IFRSs that had been endorsed by the EU on or before the 31 December 2020 became UK-adopted international accounting standards. New or amended IFRSs are now endorsed by the UK Endorsement Board following delegation of powers to endorse and adopt IFRSs for the UK by the Secretary of State in May 2021.

The following amendments to standards listed above have been endorsed for use in the UK by the UK Endorsement Board:
- IFRS 17 Insurance Contracts;
- Amendments to IFRS 17;
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The amendments to IFRS 9 Financial Instruments formed part of the EU-adopted IFRSs which were adopted by the UK on 1 January 2021 and have previously been endorsed by the EU.

A6. Significant transactions

The Group classifies disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the disposal group, excluding finance costs and income tax expense. Assets and liabilities classified as held for sale are presented separately in the statement of consolidated financial position.

A6.1 Agreement with abrdn plc

On 23 February 2021, the Group entered into a new agreement with abrdn plc to simplify the arrangements of their Strategic Partnership, enabling the Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using abrdn plc'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 abrdn plc and, effective from 1 January 2021, transferred the economic benefit of this business to abrdn plc. The Group also acquired ownership of the Standard Life brand and as part of this acquisition, the relevant marketing, distribution and data team members transferred 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, was dissolved and the CSPA intangible asset was fully impaired. In addition, Phoenix and abrdn plc 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 Group received cash consideration for the overall transaction of £115 million, £62 million of which was deferred as detailed below. On completion of the agreement the Group recognised a net gain on the transaction of £89 million, net of tax of £21 million, which was recognised in the consolidated income statement.

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 2024. The economic risk and rewards for this business transferred to abrdn plc effective from 1 January 2021 via a profit transfer arrangement. Consideration received of £62 million in respect of this business was deferred until completion of the Part VII and the payments to abrdn plc in respect of the profit transfer arrangement are being offset against the deferred consideration balance.

The balances in the statement of consolidated financial position relating to the Wrap SIPP, Onshore Bond and TIP business have been classified as a disposal group held for sale. The total proceeds of disposal are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been measured at fair value less costs to sell. At the date of the transaction an impairment loss of £59 million was recognised upon classification of the business as held for sale in respect of the acquired in-force business ('AVIF'). A further impairment charge of £17 million has been recognised in the year (2021: £8 million). The major classes of assets and liabilities classified as held for sale are as follows:

Notes to the consolidated financial statements
continued

A6. Significant transactions continued

A6.1 Agreement with abrdn plc continued

	31 December 2022 £m	31 December 2021 £m
Acquired in-force business	37	54
Investment property	2,506	3,309
Financial assets	4,629	6,507
Cash and cash equivalents	33	76
Assets classified as held for sale	7,205	9,946
Assets in consolidated funds[1]	1,147	1,788
Total assets of the disposal group	8,352	11,734
Investment contract liabilities	(8,312)	(11,676)
Other financial liabilities	(4)	(4)
Provisions	–	(2)
Deferred tax liabilities	(7)	(10)
Accruals and deferred income	(37)	(54)
Liabilities classified as held for sale	(8,360)	(11,746)

1 Included in assets of the disposal group are assets in consolidated funds, which are held to back investment contract liabilities of the Wrap SIPP, Onshore bond and TIP business and are disclosed within financial assets in the consolidated statement of financial position. The Group controls these funds at 31 December 2022 and therefore consolidates 100% of the assets with any non-controlling interest recognised as net asset value attributable to unitholders.

A6.2 Disposal of Ark Life

On 1 November 2021, the Group completed the sale of its entire interest in Ark Life Assurance Company DAC ('Ark Life') to Irish Life Group Limited for gross cash consideration of €230 million (£198 million). The carrying value of the net assets disposed of was £201 million which is after an impairment loss of £18 million in respect of AVIF that was recognised upon classification of the business as held for sale.

	31 December 2021 £m
Cash consideration received	198
Less: transaction costs	(6)
Net Consideration received	192
Net assets disposed of[1]	(201)
Foreign currency translation reserve recycled to the consolidated income statement	(14)
Loss on disposal	(23)

1 Includes cash and cash equivalents of £9 million.

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.

For management purposes, the Group is organised into business units based on their products and services. The Group has four reportable segments comprising UK Heritage, UK Open, Europe and Management 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 abrdn 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.

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.

The business of Ark Life, which was disposed of in November 2021 (see note A6.2), was allocated to the UK Heritage operating segment. The Wrap SIPP, Onshore Bond and TIP business that has been classified as a disposal group held for sale (see note A6.1) is allocated to the UK Open operating segment.

Segmental measure of performance: Adjusted operating profit

The Group uses a non-GAAP measure of performance, being adjusted operating profit, to evaluate segment performance. Adjusted 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 adjusted operating profit using valuation assumptions consistent with the pricing of the business (including the Group's expected longer-term asset allocation backing the business).

Adjusted 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). Adjusted operating profit is reported net of policyholder finance charges and policyholder tax.

Notes to the consolidated financial statements
continued

B. Earnings performance continued
B1. Segmental analysis continued

Adjusted 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 B2.1 and B2.2);
- 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 excluded from adjusted operating profit 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.

Items excluded from adjusted operating profit are referred to as 'non-operating items'. Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the adjusted 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 adjusted operating profit metric.

Certain of the Group's pension schemes have executed buy-in transactions with a Group life company (see note G1 for further details) and these arrangements can create volatility in the IFRS result which is excluded from adjusted operating profit. Investment return variances and economic assumption changes includes impacts arising as a result of economic movements in the value of financial assets backing Group employee pension schemes. The related movement in the defined benefit pension obligation is recognised in 'Other Comprehensive Income'.

The Group therefore considers that adjusted operating profit provides a good 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.

B1.1 Segmental result

	Notes	2022 £m	2021 £m
Adjusted operating profit			
UK Heritage		601	537
UK Open		731	701
Europe		30	87
Management Services		(48)	(24)
Unallocated Group		(69)	(71)
Total segmental adjusted operating profit		1,245	1,230
Investment return variances and economic assumption changes on long-term business and owners' funds	B2.2	(2,673)	(1,125)
Amortisation and impairment of acquired in-force business		(501)	(572)
Amortisation and impairment of other intangibles and goodwill	G2	(21)	(67)
Other non-operating items		(179)	(65)
Finance costs on borrowing attributable to owners		(199)	(217)
Loss before the tax attributable to owners of the parent		(2,328)	(816)
Profit before tax attributable to non-controlling interests		67	128
Loss before the tax attributable to owners		(2,261)	(688)

Other non-operating items in respect of 2022 include:
- a £329 million benefit attributable to harmonising the calibration of prudential margins included within liabilities under insurance contracts in the ReAssure life companies with the rest of the Group;
- £187 million related to the increase in expected costs associated with the delivery of the Group Target Operating Model for IT and Operations, following a strategic decision to re-phase the programme, together with the costs of migrating policyholder administration onto the TCS platform for certain legacy portfolios of business;
- £76 million of costs associated with the implementation of IFRS 17, which will be effective from 1 January 2023;
- £37 million costs associated with a strategic initiative to enhance capabilities which will support the move towards the Group's strategic asset allocation alongside growth delivered through bulk purchase annuity transactions;
- costs of £31 million associated with the ongoing ReAssure integration programme;
- £15 million of past service costs in relation to a Group pension scheme. Further details are included in note G1.1;
- £15 million of costs associated with finance transformation activities, including the migration to cloud-based systems;
- £14 million related to a support package to help colleagues navigate cost of living challenges, which included giving all colleagues, except the most senior staff, a one-off net of tax payment of £1,000 in August 2022;
- £12 million costs associated with the forthcoming acquisition of SLF of Canada UK Limited;
- £73 million of other corporate project costs; and
- net other one-off items totalling a cost of £48 million.

Other non-operating items in respect of 2021 include:
- net £110 million gain arising on the transaction with abrdn plc, which included the sale of the Group's UK investment and platform related products and the acquisition by the Group of the Standard Life brand (see note A6.1 for further details);
- a loss on disposal of £23 million arising on the sale of Ark Life Assurance Company DAC ('Ark Life') (see note A6.2 for further details);
- £35 million related to the increase in provision for costs associated with the delivery of the Group Target Operating Model for IT and Operations;
- £45 million of costs associated with the ongoing ReAssure integration programme, costs of £27 million associated with the integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019 and costs of £12 million associated with the integration of the acquired L&G mature savings business;
- an £83 million policyholder tax benefit recognised following the favourable conclusion of discussions with HMRC in respect of certain excess management expenses associated with the L&G mature savings business transferred to the Group in 2020;
- £58 million of costs associated with the implementation of IFRS 17, which will be effective from 1 January 2023;
- £44 million of other corporate project costs; and
- net other one-off items totalling a cost of £14 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.

Notes to the consolidated financial statements
continued

B. Earnings performance continued
B1. Segmental analysis continued
B1.2 Segmental revenue

2022	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	802	5,038	1,254	–	–	7,094
Less: premiums ceded to reinsurers	(267)	(1,440)	(20)	–	–	(1,727)
Net premiums written	535	3,598	1,234	–	–	5,367
Fees and commissions	590	298	63	–	–	951
Income from other segments	–	–	–	1,432	(1,432)	–
Total segmental revenue	1,125	3,896	1,297	1,432	(1,432)	6,318

2021	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	880	5,034	1,541	–	–	7,455
Less: premiums ceded to reinsurers	(284)	(1,739)	(56)	–	–	(2,079)
Net premiums written	596	3,295	1,485	–	–	5,376
Fees and commissions	634	297	70	–	–	1,001
Income from other segments	–	–	–	1,146	(1,146)	–
Total segmental revenue	1,230	3,592	1,555	1,146	(1,146)	6,377

Of the revenue from external customers presented in the table above, £5,417 million (2021: £5,448 million) is attributable to customers in the United Kingdom ('UK') and £901 million (2021: £929 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.

During the year ended 31 December 2022, the Group generated revenue of £1,070 million with a single customer under a bulk purchase annuity transaction. This was a single premium transaction that is not expected to recur. The revenue with this external customer is included in the UK Open segment.

During the year ended 31 December 2021, the Group generated revenue of £1,706 million and £1,791 million respectively with single customers under bulk purchase annuity transactions. These were single premium transactions that are not expected to recur. The revenue with these external customers has been included in the UK Open segment.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £3,721 million (2021: £5,245 million) located in the UK and £352 million (2021: £410 million) located in the rest of the world.

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 adjusted operating profit measure that incorporates an expected return on investments supporting its long-term business. The accounting policy adopted in the calculation of adjusted 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 adjusted 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 36bps at the start of the year (2021: 10bps). A risk premium of 334bps is added to the risk-free yield for equities (2021: 349bps), 244bps for properties (2021: 249bps) and 59bps for corporate bonds (2021: 55bps). The overall increase in expected returns for these assets primarily reflects the increase in the risk-free rate experienced in 2021.

The principal assumptions underlying the calculation of the long-term investment return are:

	2022 %	2021 %
Equities	4.6	4.1
Properties	3.7	3.1
Corporate bonds	1.9	1.2

B2.2 Life assurance business
Adjusted 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. Adjusted 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 adjusted operating profit.

The movement in liabilities included in adjusted 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 adjusted 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. 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 investment return variances and economic assumption changes excluded from adjusted operating profit are as follows:

	2022 £m	2021 £m
Investment return variances and economic assumption changes on long-term business and owners' funds	(2,673)	(1,125)

The net adverse investment return variances and economic assumption changes on long-term business and owners' funds of £2,673 million in 2022 (2021: adverse £1,125 million) reflect IFRS losses arising as a result of rising yields and inflation, and a widening of credit spreads.

The impact of equity, interest rate and inflation movements on future profits in relation to with-profit bonuses and unit linked charges is hedged in order to benefit the regulatory capital position rather than the IFRS net assets. The impact of market movements on the value of the related hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits or Solvency Capital Requirements is not. Such items are actively valued under Solvency II requirements but are either not recognised on an IFRS basis or are not revalued unless there is evidence of impairment (e.g. AVIF). This leads to volatility in the Group's IFRS results.

Losses have been experienced on hedging positions held by the life companies principally as a result of rising yields and increasing inflation in the year. Continued strategic asset allocation initiatives undertaken by the Group, including investment in higher yielding assets, together with gains arising on equity hedges as markets fell over the period, provided a partial offset to the adverse variances experienced.

Investment return variances and economic assumption changes also includes net losses in the value of assets backing Group employee pension schemes. This arises where those liabilities have been subject to insurance policies with Group entities (see note G1). The related decrease in the defined benefit pension obligation is recognised in other comprehensive income.

Notes to the consolidated financial statements
continued

B. Earnings performance continued

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 adjusted operating earnings net of financing costs. Adjusted 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.

2022	Adjusted Operating profit £m	Financing costs £m	Adjusted operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	1,245	(199)	1,046	(3,307)	(2,261)
Tax (charge)/credit attributable to owners	(253)	42	(211)	710	499
Profit/(loss) for the year attributable to owners	992	(157)	835	(2,597)	(1,762)
Coupon paid on Tier 1 notes, net of tax relief	–	(22)	(22)	–	(22)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(67)	(67)
Profit/(loss) for the year attributable to ordinary equity holders of the parent	992	(179)	813	(2,664)	(1,851)

2021	Adjusted Operating profit £m	Financing costs £m	Adjusted operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	1,230	(217)	1,013	(1,701)	(688)
Tax (charge)/credit attributable to owners	(243)	44	(199)	178	(21)
Profit/(loss) for the year attributable to owners	987	(173)	814	(1,523)	(709)
Coupon paid on Tier 1 notes, net of tax relief	–	(23)	(23)	–	(23)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(128)	(128)
Profit/(loss) for the year attributable to ordinary equity holders of the parent	987	(196)	791	(1,651)	(860)

The weighted average number of ordinary shares outstanding during the period is calculated as follows:

	2022 Number million	2021 Number million
Issued ordinary shares at beginning of the year	1,000	999
Effect of non-contingently issuable shares in respect of Group's long-term incentive plan	1	–
Own shares held by the employee benefit trust	(2)	(1)
Weighted average number of ordinary shares	999	998

The diluted weighted average number of ordinary shares outstanding during the period is 1,001 million (2021: 1,001 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 1,841,988 shares for the year ended 31 December 2022 (2021: 2,702,934 shares). As losses have an anti-dilutive effect, none of the share-based awards had a dilutive effect in the calculation of basic earnings per share for either of the years ended 31 December 2021 or 31 December 2022.

Earnings per share disclosures are as follows:

	2022 pence	2021 pence
Basic earnings per share	(185.2)	(86.4)
Diluted earnings per share	(185.2)	(86.4)
Basic adjusted operating earnings net of financing costs per share	81.5	79.2
Diluted adjusted operating earnings net of financing costs per share	81.3	79.0

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.

	2022 £m	2021 £m
Dividends declared and paid in the year	496	482

On 11 March 2022, the Board recommended a final dividend of 24.8p per share in respect of the year ended 31 December 2021. The dividend was approved at the Group's Annual General Meeting, which was held on 5 May 2022. The dividend amounted to £248 million and was paid on 9 May 2022.

On 12 August 2022, the Board declared an interim dividend of 24.8p per share for the half year ended 30 June 2022. The dividend amounted to £248 million and was paid on 12 September 2022.

Notes to the consolidated financial statements
continued

C. Other 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. No significant judgements are required in determining the timing or amount of fee income or the costs incurred to obtain or fulfil a contract.

The table below disaggregates fees and commissions by segment.

2022	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	561	293	72	926
Initial fees deferred during the year	–	–	(9)	(9)
Revenue from investment contracts without DPF	561	293	63	917
Other revenue from contracts with customers	29	5	–	34
Fees and commissions	590	298	63	951

2021	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	606	291	81	978
Initial fees deferred during the year	–	–	(11)	(11)
Revenue from investment contracts without DPF	606	291	70	967
Other revenue from contracts with customers	28	6	–	34
Fees and commissions	634	297	70	1,001

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.

In the period no amortisation or impairment losses from contracts with customers 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 Group defined benefit pension scheme 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.

	2022 £m	2021 £m
Investment income		
Interest income on financial assets at amortised cost	21	1
Interest income on financial assets designated at FVTPL on initial recognition	2,888	2,647
Dividend income	5,409	4,384
Rental income	343	365
Net interest expense on Group defined benefit pension scheme (liability)/asset	(64)	(37)
	8,597	7,360
Fair value gains/(losses)		
Financial assets and financial liabilities at FVTPL:		
Designated upon initial recognition	(38,676)	12,354
Held for trading – derivatives	(6,707)	(2,908)
Investment property	(1,363)	1,195
	(46,746)	10,641
Net investment income	(38,149)	18,001

Notes to the consolidated financial statements
continued

C. Other 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.

	2022 £m	2021 £m
Employee costs	611	531
Outsourcer expenses	247	209
Professional fees	441	321
Commission expenses	145	178
Office and IT costs	172	150
Investment management expenses and transaction costs	569	528
Direct costs of collective investment schemes	25	28
Depreciation	19	18
Pension past service costs	15	–
Pension administrative expenses	7	6
Advertising and sponsorship	63	58
Movement in reinsurance payables[1]	93	-
Other	26	59
	2,433	2,086
Acquisition costs deferred during the year	(32)	(38)
Amortisation of deferred acquisition costs	11	8
Total administrative expenses	2,412	2,056

Employee costs comprise:

	2022 £m	2021 £m
Wages and salaries	554	483
Social security contributions	57	48
	611	531

	2022 Number	2021 Number
Average number of persons employed	8,165	7,885

1 Reflects an increase of £93 million (2021: £nil) in the amounts payable to reinsurers in respect of certain product features of the Group's German business. There is a corresponding reduction in the gross liabilities under insurance contracts.

C4. Auditor's remuneration

During the year the Group obtained the following services from its auditor at costs as detailed in the table below.

	2022 £m	2021 £m
Audit of the consolidated financial statements	4.8	1.8
Audit of the Company's subsidiaries	10.7	9.8
	15.5	11.6
Audit-related assurance services	2.4	2.3
Total fee for assurance services	17.9	13.9
Total auditor's remuneration	17.9	13.9

No services were provided by the Company's auditors to the Group's pension schemes in either 2022 or 2021.

The increase in the audit fee during 2022 principally reflects the additional work undertaken in connection with the transition to IFRS 17.

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.

There were no other non-audit services provided during the year (2021: £nil).

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 96 to 101.

C5. Finance costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

	2022 £m	2021 £m
Interest expense		
On financial liabilities at amortised cost	227	239
On leases	3	3
	230	242
Attributable to:		
• policyholders	3	2
• owners	227	240
	230	242

Notes to the consolidated financial statements
continued

C. Other income statement notes continued

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

	2022 £m	2021 £m
Current tax:		
UK corporation tax	36	(9)
Overseas tax	85	114
	121	105
Adjustment in respect of prior years	(23)	(66)
Total current tax charge	98	39
Deferred tax:		
Origination and reversal of temporary differences	(1,067)	120
Change in the rate of UK corporation tax	(123)	147
Adjustments in respect of prior years	14	(27)
Total deferred tax (credit)/charge	(1,176)	240
Total tax (credit)/charge	(1,078)	279
Attributable to:		
• policyholders	(579)	258
• owners	(499)	21
Total tax (credit)/charge	(1,078)	279

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 credit attributable to policyholder earnings was £579 million (2021: £258 million charge).

The 2022 current tax prior year adjustment relates principally to a 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). This was resolved in the period in favour of the Group. The 2021 current tax liability included an accrual for the total tax under dispute. The matter was heard before the First Tier Tribunal in May 2022 and the Court found in favour of ReAssure Limited. HMRC are not appealing against this decision and so the accrual for the potential tax liability has been released.

C6.2 Tax charged to other comprehensive income

	2022 £m	2021 £m
Current tax charge	–	1
Deferred tax charge on defined benefit schemes	280	137
	280	138

C6.3 Tax (credited)/charged to equity

	2022 £m	2021 £m
Current tax credit on Tier 1 Notes	(7)	(6)
Deferred tax charge/(credit) on share schemes	2	(1)
Total tax credit	(5)	(7)

C6.4 Reconciliation of tax charge

	2022 £m	2021 £m
Loss for the year before tax	(2,840)	(430)
Policyholder tax credit/(charge)	579	(258)
Loss before the tax attributable to owners	(2,261)	(688)
Tax credit at standard UK rate of 19% (2021: 19%)[1]	(429)	(131)
Non-taxable income	(4)	(10)
Disallowable expenses	2	19
Prior year tax credit for shareholders[2]	(17)	(7)
Movement on acquired in-force amortisation at less than 19% (2021: 19%)	26	34
Profits taxed at rates other than 19% (2021: 19%)[3]	18	(22)
Derecognition/(recognition) of previously recognised/(unrecognised) deferred tax assets[4]	14	(13)
Deferred tax rate change[5]	(119)	147
Current year losses not valued[6]	16	1
Other[7]	(6)	3
Owners' tax (credit)/charge	(499)	21
Policyholder tax (credit)/charge	(579)	258
Total tax (credit)/charge for the year	(1,078)	279

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 The prior year tax credit relates to true-ups from the 2021 tax reporting provisions in various entities within the Group and the resolution of the ReAssure Limited tax dispute with HMRC, described above
3 Profits taxed at rates other than 19% relates to overseas profits, consolidated fund investments and UK life company profits subject to marginal shareholder tax rates
4 Relates primarily to reduction in the future value of capital losses in ReAssure Limited, arising from further policyholder losses accrued in the period
5 Deferred tax rate change relates primarily to movements in deferred tax liabilities on non-refundable pension scheme surplus which are expected to unwind, and deferred tax assets on losses expected to be relieved, at rates in excess of the current year rate of 19%
6 Relates primarily to tax losses in Standard Life International DAC, in relation to which a deferred tax asset cannot be recognised
7 Principally relates to UK tax relief available in relation to foreign withholding tax incurred

Notes to the consolidated financial statements
continued

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.

	2022 £m	2021 £m
Issued and fully paid:		
1,000.4 million ordinary shares of £0.10 each (2021: 999.5 million)	100	100

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:

	2022 Number	2022 £	2021 Number	2021 £
Shares in issue at 1 January	999,536,058	99,953,605	999,232,144	99,923,214
Ordinary shares issued in the year	816,419	81,642	303,914	30,391
Shares in issue at 31 December	1,000,352,477	100,035,247	999,536,058	99,953,605

During the year, 816,419 shares (2021: 303,914) were issued at a premium £4 million (2021: £2 million) in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

The balance in the merger reserve arose upon the issuance of equity shares in 2020 as part consideration for the acquisition of the entire share capital of ReAssure Group plc. 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.

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.

	2022 £m	2021 £m
At 1 January	12	6
Shares acquired by the EBT	13	16
Shares awarded to employees by the EBT	(12)	(10)
At 31 December	13	12

During the year 1,764,660 (2021: 1,490,492) shares were awarded to employees by the EBT and 1,970,764 (2021: 2,423,407) shares were purchased. The number of shares held by the EBT at 31 December 2022 was 2,092,022 (2021: 1,885,918).

The Company provided the EBT with an interest-free facility arrangement to enable it to purchase the shares.

D3 Other reserves

The other reserves comprise 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 the 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.

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.

Further details of the Group's hedge accounting policy are included in note E1.

2022	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2022	5	51	56
Other comprehensive expense for the year	(5)	(5)	(10)
At 31 December 2022	–	46	46

2021	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2021	5	43	48
Other comprehensive income for the year	–	8	8
At 31 December 2021	5	51	56

In June 2021, the Group entered into four cross currency swaps which were designated as hedging instruments in order to effect cash flow hedges of the Group's Euro and US Dollar denominated borrowings. Hedge accounting has been adopted effective from the date of designation of the hedging relationship.

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.

	2022 £m	2021 £m
Tier 1 Notes	494	494

On 26 April 2018, Old PGH (the Group's ultimate parent company up to December 2018) 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 (2021: £29 million).

Notes to the consolidated financial statements
continued

D. Equity continued
D4. Tier 1 notes continued

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.

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.

	APEOT 2022 £m	APEOT 2021 £m
At 1 January	460	341
Profit for the year	67	128
Dividends paid	(10)	(9)
Increase in non-controlling interests	15	–
At 31 December	532	460

The non-controlling interests of £532 million (2021: £460 million) reflects third party ownership of abrdn Private Equity Opportunities Trust plc ('APEOT') determined at the proportionate value of the third party interest in the underlying assets and liabilities. APEOT is a UK Investment Trust listed and traded on the London Stock Exchange. As at 31 December 2022, the Group held 53.6% (2021: 55.2%) of the issued share capital of APEOT.

The Group's interest in APEOT is held in the with-profit and unit-linked funds of the Group's life companies. Therefore, the shareholder exposure to the results of APEOT 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:

APEOT	2022 £m	2021 £m
Statement of financial position:		
Financial assets	554	452
Other assets	12	19
Total assets	566	471
Total liabilities	34	11
Income statement:		
Net income	74	134
Profit after tax	67	128
Comprehensive income	67	128
Cash flows:		
Net (decrease)/increase in cash and cash equivalents	(7)	10

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.

The Group has treaties in place with third party insurance companies to provide reinsurance in respect of liabilities that are linked to the performance of funds maintained by those companies. The contracts in question do not transfer significant insurance risk and therefore are classified as financial instruments and are valued at fair value through profit and loss. These contracts are disclosed under Reinsurers' share of investment contract liabilities in the statement of consolidated financial position.

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.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E1. Fair values continued

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 are 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.

Deposits received 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. The 'deposits received from reinsurers' are measured at amortised cost.

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 received 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. Further details of the Group's collateral arrangements are included in note E4.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, instead of 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
The Group designates 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.

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 2022:

2022	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	4,071	3,353	4,071
Designated upon initial recognition:			
Equities[1]	76,780	–	76,780
Investment in associate (see note H2)[1]	329	–	329
Debt securities	84,710	70,115	84,710
Collective investment schemes[1]	78,353	–	78,353
Reinsurers' share of investment contract liabilities[1]	9,088	–	9,088
Financial assets measured at amortised cost:			
Loans and deposits	279	99	279
Total financial assets	253,610		253,610
Less amounts classified as financial assets held for sale (see note A6.1)[2]	(4,629)		(4,629)
Total financial assets less financial assets classified as held for sale	248,981		248,981

2022	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	5,879	5,118	5,879
Designated upon initial recognition:			
Borrowings	64	64	64
Net asset value attributable to unitholders[1]	2,978	–	2,978
Investment contract liabilities[1]	152,157	–	152,157
Financial liabilities measured at amortised cost:			
Borrowings	3,916	3,648	3,644
Deposits received from reinsurers	2,598	2,221	2,598
Obligations for repayment of collateral received	1,706	–	1,706
Total financial liabilities	169,298		169,026
Less amounts classified as financial liabilities held for sale (see note A6.1)[3]	(8,316)		(8,316)
Total financial liabilities less financial liabilities held for sale	160,982		160,710

1 These assets and liabilities have no specified settlement date.
2 Amounts classified as financial assets held for sale include derivatives of £3 million, equities of £43 million, debt securities of £1,594 million, collective investment schemes of £2,964 million and reinsurers' share of investment contract liabilities of £25 million.
3 Amounts classified as financial liabilities held for sale include derivative liabilities of £4 million and investment contract liabilities of £8,312 million.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E1. Fair values continued
E1.1 Fair values analysis continued

2021	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	4,571	3,208	4,571
Designated upon initial recognition:			
Equities[1]	87,059	–	87,059
Investment in associate (see note H2)[1]	431	–	431
Debt securities	106,990	88,965	106,990
Collective investment schemes[1]	90,164	–	90,164
Reinsurers' share of investment contract liabilities[1]	10,009	–	10,009
Financial assets measured at amortised cost:			
Loans and deposits	475	48	475
Total financial assets	299,699		299,699
Less amounts classified as financial assets held for sale (see note A6.1)[2]	(6,507)		(6,507)
Total financial assets less financial assets classified as held for sale	293,192		293,192

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Total £m
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	1,252	989	1,252
Designated upon initial recognition:			
Borrowings	70	70	70
Net asset value attributable to unitholders[1]	3,568	–	3,568
Investment contract liabilities[1]	172,093	–	172,093
Financial liabilities measured at amortised cost:			
Borrowings	4,155	3,688	4,564
Deposits received from reinsurers	3,569	3,150	3,569
Obligations for repayment of collateral received	3,442	–	3,442
Total financial liabilities	188,149		188,558
Less amounts classified as financial liabilities held for sale[3]	(11,680)		(11,680)
Total financial liabilities less financial liabilities held for sale	176,469		176,878

1 These assets and liabilities have no specified settlement date.
2 Amounts classified as financial assets held for sale include derivatives of £4 million, equities of £78 million, debt securities of £2,229 million, collective investment schemes of £4,169 million and reinsurers' share of investment contract liabilities of £27 million.
3 Amounts classified as financial liabilities held for sale include derivative liabilities of £4 million and investment contract liabilities of £11,676 million.

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.

	2022 £m	2021 £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	279	475
Cash and cash equivalents[1]	8,839	9,112
Accrued income	330	282
Other receivables[2]	4,478	1,697
All other financial assets that are measured at fair value through profit or loss[3]	248,702	292,717

1 Cash and cash equivalents excludes assets classified as held for sale of £33 million (2021: £76 million).
2 Other receivables excludes deferred acquisition costs.
3 The change in fair value during 2022 of all other financial assets that are measured at fair value through profit or loss is a £ 43,834 million loss (2021: £5,881 million loss). The balance excludes £4,629 million (2021: £6,507 million) of financial assets that are measured at fair value through profit or loss classified as held for sale.

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:

2022 Carrying value	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated[1] £m	Unit-linked £m	Total £m	Less amounts classified as held for sale £m	Total £m
Loans and deposits	–	4	–	–	–	204	71	279	–	279
Cash and cash equivalents	339	1,160	5,749	63	–	5	1,556	8,872	(33)	8,839
Accrued income	–	–	–	–	–	330	–	330	–	330
Other receivables	–	–	–	–	–	4,478	–	4,478	–	4,478
	339	1,164	5,749	63	–	5,017	1,627	13,959	(33)	13,926

2021 Carrying value	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated1 £m	Unit-linked £m	Total £m	Less amounts classified as held for sale £m	Total £m
Loans and deposits	–	6	–	–	–	414	55	475	–	475
Cash and cash equivalents	382	1,686	5,161	181	–	3	1,775	9,188	(76)	9,112
Accrued income	–	–	–	–	–	282	–	282	–	282
Other receivables	–	–	–	–	–	1,697	–	1,697	–	1,697
	382	1,692	5,161	181	–	2,396	1,830	11,642	(76)	11,566

1 The Group has assessed its non-rated assets as having a low credit risk.

Notes to the consolidated financial statements
continued

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 and reinsurers' share of investment contract liabilities, 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 as 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. The fair value of investment contract liabilities reflects the fair value of the underlying assets and liabilities in the funds plus an additional amount to cover the present value of the excess of future policy costs over future charges. The liabilities are consequently determined to be Level 2 instruments.

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.

2022	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	165	3,754	152	4,071
Financial assets designated at FVTPL upon initial recognition:				
Equities	74,464	124	2,192	76,780
Investment in associate	329	–	–	329
Debt securities	48,151	25,094	11,465	84,710
Collective investment schemes	75,962	2,079	312	78,353
Reinsurers' share of investment contract liabilities	9,088	–	–	9,088
	207,994	27,297	13,969	249,260
Total financial assets measured at fair value	208,159	31,051	14,121	253,331
Less amounts classified as held for sale	(3,661)	(179)	(789)	(4,629)
Total financial assets measured at fair value, excluding amounts classified as held for sale	204,498	30,872	13,332	248,702
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	272	7	279
	204,498	31,144	13,339	248,981

2022	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	98	5,538	243	5,879
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	64	64
Net asset value attributable to unit-holders	2,978	–	–	2,978
Investment contract liabilities	–	152,157	–	152,157
	2,978	152,157	64	155,199
Total financial liabilities measured at fair value	3,076	157,695	307	161,078
Less amounts classified as held for sale	–	(8,316)	–	(8,316)
Total financial liabilities measured at fair value, excluding amounts classified as held for sale	3,076	149,379	307	152,762
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	3,644	–	3,644
Deposits received from reinsurers	–	2,542	56	2,598
Obligations for repayment of collateral received	–	1,706	–	1,706
Total financial liabilities for which fair values are disclosed	–	7,892	56	7,948
	3,076	157,271	363	160,710

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E2. Fair value hierarchy continued
E2.2 Fair value hierarchy of financial instruments continued

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	161	4,173	237	4,571
Financial assets designated at FVTPL upon initial recognition:				
Equities	85,108	52	1,899	87,059
Investment in associate	431	–	–	431
Debt securities	57,992	36,546	12,452	106,990
Collective investment schemes	86,244	3,634	286	90,164
Reinsurers' share of investment contract liabilities	10,009	–	–	10,009
	239,784	40,232	14,637	294,653
Total financial assets measured at fair value	239,945	44,405	14,874	299,224
Less amounts classified as held for sale (see note A6.1)	(5,194)	(421)	(892)	(6,507)
Total financial assets measured at fair value, excluding amounts classified as held for sale	234,751	43,984	13,982	292,717
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	464	11	475
	234,751	44,448	13,993	293,192

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	155	972	125	1,252
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	70	70
Net asset value attributable to unitholders	3,568	–	–	3,568
Investment contract liabilities	–	172,093	–	172,093
	3,568	172,093	70	175,731
Total financial liabilities measured at fair value	3,723	173,065	195	176,983
Less amounts classified as held for sale (see note A6.1)	–	(11,680)	–	(11,680)
Total financial liabilities measured at fair value, excluding amounts classified as held for sale	3,723	161,385	195	165,303
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	4,564	–	4,564
Deposits received from reinsurers	–	3,484	85	3,569
Obligations for repayment of collateral received	–	3,442	–	3,442
Total financial liabilities for which fair values are disclosed	–	11,490	85	11,575
	3,723	172,875	280	176,878

E2.3 Significant inputs and input values for Level 3 financial instruments

Description	Valuation technique	Significant inputs	Key unobservable input value 2022	Key unobservable input value 2021
Equities	Single broker[1] and net asset value[2]	Single broker indicative price	**N/A**	N/A
Debt securities (see E2.3.1 for further details)				
Loans guaranteed by export credit agencies & supranationals	DCF model[3]	Credit spread	**111bps (weighted average)**	53bps (weighted average)
Private corporate credit	DCF model[3]	Credit spread	**169bps (weighted average)**	129bps (weighted average)
Infrastructure loans	DCF model[3]	Credit spread	**220bps (weighted average)**	207bps (weighted average)
Loans to housing associations	DCF model[3]	Credit spread	**164bps (weighted average)**	128bps (weighted average)
Local authority loans	DCF model[3]	Credit spread	**137bps (weighted average)**	105 bps (weighted average)
Equity Release Mortgage loans ('ERM')	DCF model and Black-Scholes model[4]	Spread	**260bps over the IFRS reference curve**	170bps over the IFRS reference curve
		House price inflation	**+75bps adjustment to RPI**	+75bps adjustment to RPI
		House prices	**£304,088 (average)**	£291,599 (average)
		Mortality	**Average life expectancy of a male and female currently aged 75 is 14.5 years and 15.9 years respectively**	Average life expectancy of a male and female currently aged 76 is 13.7 years and 15.0 years respectively
		Voluntary redemption rate	**150bps to 700bps**	150bps to 700bps
Commercial real estate loans	DCF model[3]	Credit spread	**253bps (weighted average)**	228bps (weighted average)
Income strips[5]	Income capitalisation	Credit spread	**661bps**	487bps
Collective investment schemes	Net asset value statements[2]	N/A	**N/A**	N/A
Borrowings				
Property reversions loans (see note E5)	Internally developed model	Mortality rate	**130% IFL92C15 (Female)[6]**	130% IFL92C15 (Female)[6]
			130% IML92C15 (Male)[6]	130% IML92C15 (Male)[6]
		House price inflation	**3 year RPI rate plus 75bps**	3 year RPI rate plus 75bps
		Discount rate	**3 year swap rate plus 170bps**	3 year swap rate plus 170bps
		Deferred possession rate	**370bps**	370bps
Derivative assets and liabilities				
Forward private placements, infrastructure and local authority loans[7]	DCF model[3]	Credit spread	**145bps (weighted average)**	110bps (weighted average)
Longevity swaps[8]	DCF model[3]	Swap curve	**swap curve + 36bps**	swap curve + 36bps
Equity Release Income Plan total return swap[9]	DCF model[3]	Credit spread	**500bps**	500bps

1 Broker indicative prices: Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.
2 Net asset value statements: Net asset statements are provided by independent third parties, and therefore no significant non-observable input or sensitivity information has been prepared for those instruments valued on this basis.
3 Discounted cash flow ('DCF') model: Except where otherwise stated, the discount rate used is based on a risk-free curve and a credit spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is derived from a basket of comparable securities.
4 ERM loans: The loans are valued using a DCF 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.
5 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.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E2. Fair value hierarchy continued
E2.3 Significant inputs and input values for Level 3 financial instruments continued

6 IFL92C15 and IML92C15 relate to immediate annuitant female and male lives and refer to the 92 series mortality tables produced by the Continuous Mortality Investigation ('CMI').
7 Derivative liabilities include forward investments of £146 million (2021: £7 million derivative assets) which include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates.
8 Included within derivative assets and liabilities are longevity swap contracts with corporate pension schemes with a fair value of £152 million (2021: £230 million) and £34 million (2021: £49 million) respectively.
9 Included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £63 million (2021: £67 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).

E2.3.1 Debt securities

Analysis of Level 3 debt securities	2022 £m	2021 restated[1] £m
Unquoted corporate bonds:		
Loans guaranteed by export credit agencies & supranationals	402	219
Private corporate credit	1,422	1,488
Infrastructure loans – project finance	882	967
Infrastructure loans – corporate	1,175	1,074
Loans to housing associations	691	1,022
Local authority loans	596	917
Equity release mortgages	3,934	4,214
Commercial real estate loans	1,104	1,317
Income strips	786	886
Bridging loans to private equity funds	462	339
Other	11	9
Total Level 3 debt securities	11,465	12,452
Less amounts classified as held for sale	(786)	(892)
Total Level 3 debt securities excluding amounts classified as held for sale	10,679	11,560

1 At 31 December 2021 £1,632 million of private corporate credit assets have been reclassified as loans guaranteed by export credit agencies & supranationals (£60 million), infrastructure loans (£550 million) and loans to housing associations (£1,022 million).

Sensitivities of level 3 financial instruments	2022 £m	2021 £m
Debt securities – Loans guaranteed by export credit agencies & supranationals		
65bps increase in spread	(9)	(9)
65bps decrease in spread	11	10
Debt securities – Private corporate credit		
65bps increase in spread	(98)	(124)
65bps decrease in spread	112	143
Debt securities – Infrastructure loans		
65bps increase in spread	(103)	(124)
65bps decrease in spread	107	128
Debt securities – Loans to housing associations		
65bps increase in spread	(54)	(102)
65bps decrease in spread	58	112
Debt securities – Local authority loans		
65bps increase in spread	(51)	(109)
65bps decrease in spread	55	121
Debt securities – ERM loans		
100bps increase in spread	(329)	(443)
100bps decrease in spread	370	512
5% increase in mortality	13	(10)
5% decrease in mortality	(14)	9
15% increase in voluntary redemption rate	49	(22)
15% decrease in voluntary redemption rate	(52)	23
1% increase in house price inflation	27	26
1% decrease in house price inflation	(42)	(43)
10% increase in house prices	22	13
10% decrease in house prices	(38)	(23)
Debt securities – CRELs		
65bps increase in spread	(18)	(24)
65bps decrease in spread	19	24
Debt securities – Income strips		
35bps increase in spread	(76)	(94)
35bps decrease in spread	88	121
Derivatives – Forward private placements, infrastructure and local authority loans1		
65bps increase in spread	(30)	(25)
65bps decrease in spread	31	27
Derivatives – Longevity swap contracts		
100bps increase in swap curve	(17)	(28)
100bps decrease in swap curve	21	35
Derivatives – Equity Release Income Plan total return swap		
100bps increase in spread	(2)	(2)
100bps decrease in spread	2	2

For the property reversions loans and bridging loans to equity funds, there are no reasonably possible movements in unobservable input values which would result in a significant movement in the fair value of the financial instruments.

For those assets valued using net asset value statements (equities and collective investment schemes) no sensitivity information has been prepared as the net asset statements are provided by independent third parties.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued

E2.3 Significant inputs and input values for Level 3 financial instruments continued continued

E2.4 Transfers of financial instruments between Level 1 and Level 2

2022	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Derivatives	48	–
Financial assets designated at FVTPL upon initial recognition:		
Equities	73	5
Debt securities	1,478	1,267
Collective investment schemes	28	–
	1,579	1,272
Total financial assets measured at fair value	1,627	1,272

2021	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Derivatives	51	–
Financial assets designated at FVTPL upon initial recognition:		
Equities	33	17
Debt securities	1,742	1,006
Collective investment schemes	32	42
	1,807	1,065
Total financial assets measured at fair value	1,858	1,065

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, resulted in an overall net movement of debt securities from Level 1 to Level 2 in both the current and prior period.

E2.5 Movement in Level 3 financial instruments measured at fair value

2022	At 1 January 2022 £m	Net (losses)/ gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2022[1] £m	Unrealised (losses)/ gains on assets held at end of period £m
Financial assets								
Derivatives	237	(85)	–	–	–	–	152	(85)
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,899	177	438	(369)	47	–	2,192	12
Debt securities	12,452	(3,544)	6,838	(4,277)	2	(6)	11,465	(3,595)
Collective investment schemes	286	(79)	108	(3)	-	–	312	(73)
	14,637	(3,446)	7,384	(4,649)	49	(6)	13,969	(3,656)
Total financial assets	14,874	(3,531)	7,384	(4,649)	49	(6)	14,121	(3,741)

1 Total financial assets of £14,121 million includes £789 million of assets classified as held for sale.

2022	At 1 January 2022 £m	Net losses in income statement £m	Purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2022 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	125	130	–	(12)	–	–	243	123
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	70	9	–	(15)	–	–	64	9
Total financial liabilities	195	139	–	(27)	–	–	307	132

2021	At 1 January 2021 £m	Net (losses)/gains in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2021[1] £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	198	(74)	113	–	–	–	237	(82)
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,563	436	269	(368)		(1)	1,899	278
Debt securities	10,164	88	6,394	(4,210)	26	(10)	12,452	115
Collective investment schemes	401	(70)	34	(94)	15	–	286	22
	12,128	454	6,697	(4,672)	41	(11)	14,637	415
Total financial assets	12,326	380	6,810	(4,672)	41	(11)	14,874	333

1 Total financial assets of £14,874 million includes £892 million classified as held for sale.

2021	At 1 January 2021 £m	Net (gains)/losses in income statement £m	Purchases £m	Sales/ Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2021[1] £m	Unrealised (gains)losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	162	(19)	–	(18)	–	–	125	(29)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	84	4	–	(18)	–	–	70	5
Total financial liabilities	246	(15)	–	(36)	–	–	195	(24)

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.

Notes to the consolidated financial statements
continued

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 2022 £m	Liabilities 2022 £m	Assets 2021 £m	Liabilities 2021 £m
Forward currency	327	221	180	58
Credit default swaps	4	18	63	39
Contracts for difference	3	3	8	2
Interest rate swaps	2,281	4,313	1,509	506
Total return bond swaps	–	–	3	–
Swaptions	187	46	1,722	11
Inflation swaps	295	104	232	98
Equity options	334	147	408	254
Stock index futures	162	36	41	122
Fixed income futures	95	231	46	33
Longevity swap contracts	152	34	230	49
Currency futures	4	8	7	1
Cross-currency swaps	227	653	122	12
Equity Release Income Plan total return swap	–	63	–	67
Other	–	2	–	–
	4,071	5,879	4,571	1,252
Less amounts classified as held for sale	(3)	(4)	(4)	(4)
	4,068	5,875	4,567	1,248

E3.2 Longevity swap contracts
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 £152 million and derivative liabilities of £34 million have been recognised as at 31 December 2022 (2021: £230 million and £49 million respectively).

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.

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, but is usually in the form of cash and marketable securities.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated and is available to the Group for investment purposes, is recognised as a financial asset in the statement of consolidated financial position with a corresponding financial 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 2022 (2021: 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		
2022	Gross and net amounts of recognised financial assets £m	Financial instruments and cash collateral received £m	Derivative liabilities £m	Net amount £m
Financial assets				
OTC derivatives	3,747	1,055	2,293	399
Exchange traded derivatives	324	193	28	103
Stock lending	1,451	1,451	–	–
Total	5,522	2,699	2,321	502

		Related amounts not offset		
	Gross and net amounts of recognised financial liabilities £m	Financial instruments and cash collateral pledged £m	Derivative assets £m	Net Amount £m
Financial liabilities				
OTC derivatives	5,606	2,206	2,293	1,107
Exchange traded derivatives	273	36	28	209
Total	5,879	2,242	2,321	1,316

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E3. Derivatives continued
E4 Collateral arrangements

2021	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
Financial assets				
OTC derivatives	4,394	3,600	487	307
Exchange traded derivatives	177	5	6	166
Stock lending	1,587	1,587	–	–
Total	6,158	5,192	493	473

	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
Financial liabilities				
OTC derivatives	1,096	319	487	290
Exchange traded derivatives	156	24	6	126
Total	1,252	343	493	416

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 £471 million (2021: £945 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2022 are set out below.

	OTC derivatives 2022 £m	OTC derivatives 2021 £m
Financial assets	1,513	3,442
Financial liabilities	(1,513)	(3,442)

The maximum exposure to credit risk in respect of OTC derivative assets is £3,747 million (2021: £4,394 million) of which credit risk of £3,348 million (2021: £4,087 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 £324 million (2021: £177 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 2022 in respect of OTC derivative liabilities of £5,606 million (2021: £1,096 million) amounted to £3,228 million (2021: £942 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 £1,586 million (2021: £1,749 million).

The maximum exposure to credit risk in respect of stock lending transactions is £1,451 million (2021: £1,587 million) of which credit risk of £1,451 million (2021: £1,587 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.

E5.1 Analysis of borrowings

	Carrying value 2022 £m	Carrying value 2021 £m	Fair value 2022 £m	Fair value 2021 £m
£300 million multi-currency revolving credit facility (note a)	62	17	62	17
Property reversions loan (note b)	64	70	64	70
Total policyholder borrowings	126	87	126	87
£428 million Tier 2 subordinated notes (note c)	427	427	429	498
£450 million Tier 3 subordinated notes (note d)	–	450	–	457
US $500 million Tier 2 notes (note e)	413	368	390	408
€500 million Tier 2 bonds (note f)	439	416	416	490
US $750 million Contingent Convertible Tier 1 notes (note g)	618	551	580	581
£500 million Tier 2 notes (note h)	487	485	445	593
US $500 million Fixed Rate Reset Tier 2 notes (note i)	412	368	382	389
£500 million 5.867% Tier 2 subordinated notes (note j)	543	550	465	598
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note k)	259	266	244	269
£250 million 4.016% Tier 3 subordinated notes (note l)	256	257	231	264
Total shareholder borrowings	3,854	4,138	3,582	4,547
Total borrowings	3,980	4,225	3,708	4,634
Amount due for settlement after 12 months	3,918	3,758		

a. abrdn Private Equity Opportunities Trust plc ('APEOT') has in place a syndicated multi-currency revolving credit facility, of which £61 million (2021: £17 million) had been drawn down as at 31 December 2022. During the year, the amount of the facility was increased from £200 million to £300 million and its term maturity was extended by one year to December 2025. Interest accrues on this facility at a margin over the reference rate of the currency drawn.

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. During 2022, repayments totalling £15 million were made (2021: £18 million). Note G4 contains details of the assets that support this loan.

c. On 23 January 2015, PGH Capital plc ('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. During 2017, the internal holdings were sold to third parties, thereby increasing external borrowings by £32 million. On 20 March 2017, Old PGH (the Group's ultimate parent company up to December 2018) 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.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E5. Borrowings continued
E5.1 Analysis of borrowings continued

d. On 20 July 2022, the Group redeemed its £450 million Tier 3 subordinated notes in full at their principal amount, together with interest accrued to the repayment date.

e. 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.

f. 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.

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.

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.

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, 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.

k. 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.

l. 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.

m. The Group has in place a £1.25 billion unsecured revolving credit facility (the 'revolving facility'), maturing in June 2026. The facility accrues interest at a margin over SONIA that is based on credit rating. The facility remains undrawn as at 31 December 2022.

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 2022 £m	New borrowings, net of costs £m	Repayments £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[1] £m	At 31 December 2022 £m
APEOT multi-currency revolving credit facility	17	61	(17)	–	1	–	62
Property Reversions loan	70	–	(15)	9	–	–	64
£428 million Tier 2 subordinated notes	427	–	–	–	–	–	427
£450 million Tier 3 subordinated notes	450	–	(450)	–	–	–	–
US $500 million Tier 2 bonds	368	–	–	–	45	–	413
€500 million Tier 2 notes	416	–	–	–	22	1	439
US $750 million Contingent Convertible Tier 1 notes	551	–	–	–	66	1	618
£500 million Tier 2 notes	485	–	–	–	–	2	487
US $500 million Fixed Rate Reset Tier 2 notes	368	–	–	–	44	–	412
£500 million 5.867% Tier 2 subordinated notes	550	–	–	–	–	(7)	543
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	266	–	–	–	–	(7)	259
£250 million 4.016% Tier 3 subordinated notes	257	–	–	–	–	(1)	256
Derivative assets[2]	(48)	–	–	(177)	–	–	(225)
Derivative liabilities[2]	5	–	–	(5)	–	–	–
	4,182	61	(482)	(173)	178	(11)	3,755

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost. No interest was capitalised in the year.
2 Cross currency swaps to hedge against adverse currency movements in respect of Group's Euro and US Dollar denominated borrowings.

Notes to the consolidated financial statements
continued

E. Financial assets & liabilities continued
E5. Borrowings continued
E5.2 Reconciliation of liabilities arising from financing activities continued

		Cash movements		Non-cash movements			
	At 1 January 2021 £m	New borrowings, net of costs £m	Repayments £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[1] £m	At 31 December 2021 £m
APEOT multi-currency revolving credit facility	–	17	–	–	–	–	17
Property Reversions loan	84	–	(18)	4	–	–	70
£200 million 7.25% unsecured subordinated loan	200	–	(200)	–	–	–	–
£300 million senior unsecured bond	122	–	(122)	–	–	–	–
£428 million Tier 2 subordinated notes	426	–	–	–	–	1	427
£450 million Tier 3 subordinated notes	449	–	–	–	–	1	450
US $500 million Tier 2 bonds	364	–	–	–	4	–	368
€500 million Tier 2 notes	442	–	–	–	(26)	–	416
US $750 million Contingent Convertible Tier 1 notes	545	–	–	–	5	1	551
£500 million Tier 2 notes	484	–	–	–	–	1	485
US $500 million Fixed Rate Reset Tier 2 notes	364	–	–	–	4	–	368
£500 million 5.867% Tier 2 subordinated notes	556	–	–	–	–	(6)	550
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	272	–	–	–	–	(6)	266
£250 million 4.016% Tier 3 subordinated notes	259	–	–	–	–	(2)	257
Derivative assets[2]	–	–	–	(48)	–	–	(48)
Derivative liabilities[2]	–	–	–	5	–	–	5
	4,567	17	(340)	(39)	(13)	(10)	4,182

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost.
2 Cross currency swaps to hedge against adverse currency movements in respect of Group's Euro and US Dollar denominated borrowings.

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 Chief Investment Officer, the relevant With-Profit Actuary and the relevant actuarial function holder/Chief Actuary 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, Pensions and Savings 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 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.

LIBOR transition
In 2021, the Group largely completed its transition from LIBOR to the replacement Risk Free Rates. The programme completed a systematic process to identify and address balance sheet exposures with LIBOR dependencies. All derivative exposures and the majority of non-derivative asset exposures were successfully transitioned over the course of the programme in 2021. Insurance contract liabilities and related items transitioned to the SONIA Solvency II curve published by the PRA with an adjustment of 36bps. The remaining residual exposures as at 31 December 2021 related to indirect exposures in a small proportion of liquid and illiquid credit assets, and a direct exposure of £55 million in relation to two illiquid credit assets referencing Sterling LIBOR. These residual exposures have largely been transitioned during the year and at 31 December 2022 a small amount of indirect illiquid credit exposure remains. This relates to two loans where LIBOR is only relevant on a prepayment. The Group does not anticipate a prepayment and this issue does not affect the fair value of the loans.

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 the impact in the Group's pension schemes, including any impact arising as a result of the elimination of intra-group buy-in transactions between the life companies and the Group's pension schemes. It also does not include 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.

Climate Risk
The Group is exposed to financial risks (in particular market and credit risk) related to the transition to a low carbon economy, and the physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications. As such, this risk is treated as a cross-cutting risk in the Group's Risk Universe.

Identification of climate related risks has been embedded into the Group's Risk Management Framework. Significant progress has been made in recent years in developing a risk metrics and targets framework, and establishing appropriate governance and risk management processes. The Group has adopted a proactive approach towards combatting climate change, with key net-zero targets. Further details on these targets and on managing the related climate change risks are provided in the Climate Report and Task Force for Climate-related Financial Disclosures ('TCFD') within 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 agreements, 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, but 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 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.

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 supported with-profit funds (where risks and rewards fall wholly to shareholders), non-profit funds and shareholders' funds.

The Group holds £15,814 million (2021: £21,668 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 £796 million (2021: £1,036 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 an increase in the profit after tax in respect of a full financial year, and in equity, of £23 million (2021: £28 million).

A 100bps narrowing 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 £36 million (2021: £37 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 and limits (including asset class, industry and geography limits). Additional controls for illiquid asset concentration risk are set out via specific risk limits within the risk appetite framework. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts.

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

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.

2022	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m	Less amounts classified as held for sale £m	Total £m
Loans and deposits	–	4	–	–	–	204	71	279	–	279
Derivatives	–	1,500	1,060	28	–	1,370	113	4,071	(3)	4,068
Debt securities[1,2]	6,834	26,095	19,045	16,238	1,929	7,182	7,387	84,710	(1,594)	83,116
Reinsurers' share of insurance contract liabilities	–	4,920	1,148	–	–	74	–	6,142	–	6,142
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	9,088	9,088	(25)	9,063
Cash and cash equivalents	339	1,160	5,749	63	–	5	1,556	8,872	(33)	8,839
	7,173	33,679	27,002	16,329	1,929	8,835	18,215	113,162	(1,655)	111,507

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. £149 million of AAA, £1,083 million of AA, £1,742 million of A, £2,766 million of BBB and £367 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 £3,934 million (further details are set out in note E2.3) and non-rated bonds.

2021	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m	Less amounts classified as held for sale £m	Total £m
Loans and deposits	–	6	–	–	–	414	55	475	–	475
Derivatives	–	965	1,737	388	–	1,343	138	4,571	(4)	4,567
Debt securities[1,2]	9,097	40,142	22,782	16,290	3,292	6,788	8,599	106,990	(2,229)	104,761
Reinsurers' share of insurance contract liabilities	–	4,963	3,539	37	–	48	–	8,587	–	8,587
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	10,009	10,009	(27)	9,982
Cash and cash equivalents	382	1,686	5,161	181	–	3	1,775	9,188	(76)	9,112
	9,479	47,762	33,219	16,896	3,292	8,596	20,576	139,820	(2,336)	137,484

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. £110 million of AAA, £1,110 million of AA, £2,556 million of A, £2,480 million of BBB and £518 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 £4,214 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 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, a Rating Committee and a Portfolio Credit Committee to monitor and perform oversight 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 do not have a public rating from an external credit assessment institution. Instead internal credit ratings are used by the Group which are provided by fund managers or for certain assets (in particular, equity release mortgages and illiquid assets) are determined by the Life Companies. The Committees review the policies, processes and practices to ensure the appropriateness of the internal ratings, and to ensure they are in line with regulatory requirements.

Throughout 2022, the Group has taken de-risking action to increase the overall credit quality of its asset portfolio and mitigate the impact of future downgrades on risk capital. Further details are included in the Risk Management section of the Strategic Report.

The Group has increased exposure to an array of illiquid credit assets such as equity release mortgages, local authority loans, social housing, infrastructure 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.

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.

Additional life company asset disclosures are included on page 307 and include information on the Group's market exposure analysed by credit rating, sector and country of exposure for the shareholder debt portfolio. In light of the continuing conflict in Russia-Ukraine, this includes the shareholders' credit exposure to Russia and Ukraine. The Group shareholder exposure to Russia and Ukraine was £nil at 31 December 2022 (31 December 2021: £23 million).

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 is monitored by the Group Counterparty Credit Risk Framework contained within the Group Credit Risk Policy. It is further provided for in 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. The Group's policy is to place reinsurance only with highly rated counterparties (minimum rating requirement of A-). The Group restricts concentration with individual external reinsurers by specifying limits on ceding and minimum conditions for acceptance and retention of reinsurers. In recent years the Group has made progress in increasing the number of reinsurers it transacts with, however, an element of concentration remains due to the nature of the reinsurance market and the restricted range of reinsurers available. The Group manages its exposure to reinsurance credit risk through the operation of a credit policy, collateralisation, 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.

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
E6.2.2 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 using a number of controls and techniques including:
- Defined lists of permitted securities and/or application of investment constraints and portfolio limits;
- Clearly defined investment benchmarks for policyholder and shareholder funds;
- Stochastic and deterministic asset/liability modelling;
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio; and
- Setting risk limits for main market risks and managing exposures against these appetites.

All operations comply with regulatory requirements relating to the taking of market risk.

Assets in the shareholder funds are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector, geographical region and credit rating are used where relevant to reduce concentration risk among the assets held.

The assets of the participating business are principally managed to support the liabilities of the participating business and are appropriately diversified by both asset class and geography, considering:
- The economic liability and how this varies with market conditions;
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and Principles and Practices of Financial Management ('PPFM'); and
- The need to ensure that regulatory and capital requirements are met.

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Markets remain volatile particularly given geopolitical tensions, increased inflation, and action by central banks to reduce inflationary pressures on economies whilst balancing the need to aid post pandemic recovery. This is noted in the Strategic Report principal risk section.

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.

The Group is required to manage its interest rate exposures in line with qualitative risk appetite statements, quantitative risk metrics and any additional hedging benchmarks. 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 and inflation risk indicates how changes in the fair value or future cash flows of a financial instrument arising from changes in market interest and inflation 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 and inflation 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.

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.

Due to the correlation between interest rates and inflation, a combined sensitivity has been presented.

An increase of 1% in interest rates and 0.6% in the rate of inflation, 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 (2021: £364 million).

A decrease of 1% in interest rates and 0.6% in the rate of inflation, 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 £128 million (2021: £415 million).

Equity and property risk
The Group is exposed to the risk of reductions in the valuation of equities (or changes in the volatility) or property investments which could result in reductions in asset values and losses for policyholders or shareholders. In this context, equity assets should be taken to include shares, equity derivatives, equity collectives and unlisted equities. Property assets include direct property investment, shares in property companies, property collectives and structured property assets.

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 shareholders' exposure to equity risk 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 equity prices.

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 £324 million (2021: £294 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 £269 million (2021: £263 million).

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 £11 million (2021: £6 million).

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
E6.2.2 Market risk continued

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 £10 million (2021: £4 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

Currency risk is the risk that changes in the value of currencies could lead to reductions in asset values which may result in losses for policyholders and shareholders. With the exception of Standard Life International business sold in Germany and the Republic of Ireland and some historic business written 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.

During 2021, the Group entered into four hedging relationships to hedge the currency risk on its Euro and US dollar denominated hybrid debt (US $500 million Tier 2 bonds, €500 million Tier 2 notes, US $750 million contingent convertible Tier 1 notes and US $500 million Fixed Rate Reset Tier 2 notes as set out in note E5) through cross currency rate swaps.

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

Tax risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. Tax risk can be caused by:
- the Group, or one of its subsidiaries, making a material error in its tax reporting;
- incorrect calculation of tax provisions;
- failure to implement the optimum financial arrangements to underpin a commercial transaction; and
- incorrect operation of policyholder tax requirements.

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

Liquidity risk is defined as failure to maintain adequate levels of financial resources to meet 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 and to meet obligations to policy liabilities. 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 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 risk appetite of less than a 1 in 200 chance 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 organic and inorganic growth ambitions, while maintaining sufficient headroom for hybrid capital under Solvency II rules.

Liquidity forecasts showing headroom against liquidity buffers are prepared regularly to predict required liquidity levels over both the short and medium-term allowing management to respond appropriately to changes in circumstances. In the event of a liquidity shortfall, this would be managed in line with the Group's Contingency Liquidity Plan where the latest available contingency management actions would be considered.

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 less liquid assets such as 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, cash and cash equivalents 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.

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
E6.2.3 Financial soundness risk continued

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*.

2022	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m	Less amounts classified as held for sale (see note A6.1) £m	Total £m
Liabilities under insurance contracts	12,898	29,818	59,300	–	102,016	–	102,016
Investment contracts	152,157	–	–	–	152,157	(8,312)	143,845
Borrowings[1]	268	1,326	2,357	64	4,015	–	4,015
Deposits received from reinsurers[1]	377	687	1,626	–	2,690	–	2,690
Derivatives[1]	757	794	9,335	–	10,886	(4)	10,882
Net asset value attributable to unitholders	2,978	–	–	–	2,978	–	2,978
Obligations for repayment of collateral received	1,706	–	–	–	1,706	–	1,706
Reinsurance payables	95	20	130	–	245	–	245
Payables related to direct insurance contracts	1,964	–	–	–	1,964	–	1,964
Lease liabilities[1]	11	37	95	–	143	–	143
Accruals and deferred income	549	42	12	–	603	(37)	566
Other payables	965	–	–	–	965	–	965

2021	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m	Less amounts classified as held for sale (see note A6.1) £m	Total £m
Liabilities under insurance contracts	14,319	36,061	78,484	–	128,864	–	128,864
Investment contracts	172,093	–	–	–	172,093	(11,676)	160,417
Borrowings[1]	664	1,380	2,772	70	4,886	–	4,886
Deposits received from reinsurers[1]	419	834	2,355	–	3,608	–	3,608
Derivatives[1]	259	517	583	–	1,359	(4)	1,355
Net asset value attributable to unitholders	3,568	–	–	–	3,568	–	3,568
Obligations for repayment of collateral received	3,442	–	–	–	3,442	–	3,442
Reinsurance payables	80	13	50	–	143	–	143
Payables related to direct insurance contracts	1,864	–	–	–	1,864	–	1,864
Lease liabilities[1]	11	59	72	–	142	–	142
Accruals and deferred income	548	59	7	7	621	(54)	567
Other payables	721	–	–	–	721	–	721

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.

The Group has a set of established policies and processes to manage its exposure to liquidity risk, including impacts arising from the economic environment, business developments and funding changes. Where liquidity risk is heightened, such as during the market volatility following the UK mini-budget, triggers are in place to enhance the frequency of liquidity monitoring and to implement available contingency actions to ensure sufficient liquidity is maintained.

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 Risk Management Framework. 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 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. A set of operational risk policies are maintained that set out the nature of the operational risk exposure and minimum control standards in place to control the risk.

The Group also has a set of operational risk policies that set out the nature of the risk exposure and minimum control standards in place to control the risk.

E6.2.6 Customer risk
Customer risk is the risk of financial failure, reputational loss, loss of earnings and/or value through inappropriate or poor customer treatment (including poor advice). It can arise as a result of:
- Customer Treatment: Failings in the design and execution of the support and service interactions with customers leads to poor customer outcomes.
- 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 Phoenix Group customer treatment risk appetites and regulatory requirements.
- Product and Propositions: Products/propositions are not designed and managed appropriates leading to poor customer outcomes.
- Sales and Distribution: Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes.

The Group's Conduct Risk Appetite, sets the boundaries within which the Group expect customer outcomes to be managed. In addition, the Group Conduct Strategy, which overarches our Risk Universe and all risk policies is designed to detect where our customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions.

The Group also has a suite of customer polices which set out the key customer risks and control objectives in place to mitigate them. The customer risks for the Group are regularly reported to management oversight committees.

Notes to the consolidated financial statements
continued

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.

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. The cost of future policy-related liabilities includes the unallocated surplus attributable to policyholders in relation to closed with-profit funds.

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 of 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.

The value of the PVFP is determined in a manner consistent with the 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.

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. Further details of net income under arrangements with reinsurers are given in note F3.3.

Notes to the consolidated financial statements
continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued

F1. Liabilities under insurance contracts continued

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.

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.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis. Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Group cancels arrangements for the reinsurance of risk to another reinsurer.

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 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.

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 2022 £m	Reinsurers' share 2022 £m	Gross liabilities 2021 £m	Reinsurers' share 2021 £m
Life assurance business:				
Insurance contracts	77,499	6,142	99,169	8,587
Investment contracts with DPF	24,517	–	29,695	–
	102,016	6,142	128,864	8,587
Amounts due for settlement after 12 months	89,117	5,194	114,545	7,472

	Gross liabilities 2022 £m	Reinsurers' share 2022 £m	Gross liabilities 2021 £m	Reinsurers' share 2021 £m
At 1 January	128,864	8,587	133,907	9,542
Premiums	7,094	1,727	7,455	2,079
Claims	(9,392)	(1,693)	(9,656)	(1,597)
Foreign exchange adjustments	797	5	(1,168)	(48)
Disposal of Ark Life	–	–	(799)	(730)
Other changes in liabilities[1]	(25,347)	(2,484)	(875)	(659)
At 31 December	102,016	6,142	128,864	8,587

1 Other changes in liabilities principally comprise changes in economic and non-economic assumptions and experience.

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.

	2022 £m	2021 £m
At 1 January	1,801	1,768
Transfer to consolidated income statement	(378)	(106)
Foreign exchange movements	(79)	139
At 31 December	1,344	1,801

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 £1,727 million (2021: £2,079 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 £4,002 million (2021: £4,882 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 income under arrangements with reinsurers' (see note F3.3). The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2022 are set out below.

	Reinsurance transactions 2022 £m	Reinsurance transactions 2021 £m
Financial assets	267	373
Financial liabilities	267	373

F3.3 Net income 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 £2.3 billion as at 31 December 2022 (31 December 2021: £3.2 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 income under arrangements with reinsurers.

Notes to the consolidated financial statements
continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued
F3. Reinsurance continued
F3.3 Net income under arrangements with reinsurers continued

	2022 £m	2021 £m
Interest payable on deposits from reinsurers	(46)	(11)
Premium adjustments	473	33
Net income under arrangements with reinsurers	427	22

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 of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour. 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/Disability	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, propensity to commute benefits, transfer out rates or the occurrence of a mass lapse event leading to losses;
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
Insurance risks are managed by monitoring risk exposure against pre-defined appetite limits. If a risk is moving out of appetite, the Group can choose to mitigate it via reinsurance in the case of longevity, mortality and morbidity risks, or by taking other risk reducing actions.

This is supported by additional 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. 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 Heritage business 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.

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.

For the Group's Open business, longevity risk exposures continue to increase 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. New business growth driven by product segments such as Workplace unit-linked pensions exposes the Group to persistency and expense risks.

There remains uncertainty around future demographic experience as a result of COVID-19, where little weight has been given to experience for most products over the pandemic given its anomalous nature, in addition to the implications arising from the cost of living crisis, as outlined in page 66 – Principal Risks and Uncertainties section of the Annual Report and Accounts. Demographic experience and the latest views on future trends continue to be considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has still been given little weight given its anomalous nature.

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 £60 million (2021: £70 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 £61 million (2021: £70 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 296 million (2021: £517 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 £290 million (2021: £530 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 £47 million (2021: £27 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 £48 million (2021: £27 million).

F4.1 Assumptions
For participating business which is with-profit business (insurance and investment contracts with DPF), 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 involves 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 36bps (2021: 36bps).

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.

Expenses
Insurance contract liabilities include an allowance for the best estimate of future expenses associated with the administration of in-force policies. This requires the allocation of the Group's future expenses between those that relate to the administration of in-force policies, those attributable to the acquisition of new business and other costs, such as corporate costs. There is a level of judgement applied in the analysis that supports this allocation. Additionally, judgement is applied in the determination of the projected costs of the Group, in particular where those projections include the impact of transition and integration activity.

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.

Notes to the consolidated financial statements
continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued
F4. Risk management – insurance risk continued
F4.1 Assumptions continued
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 experience. 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 £905 million (2021: £1,968 million) and £59 million (2021: £111 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 £197 million (2021: £349 million) and £2 million (2021: £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'.

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 2022 £m	(Decrease)/increase in insurance liabilities 2021 £m
Change in longevity assumptions	(135)	(272)
Change in persistency assumptions	9	(12)
Change in mortality assumptions	5	(7)
Change in expenses assumptions	200	275
Change in other assumptions	(376)	–

2022:
The £135 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2021 projection tables.

The £9 million and £5 million negative impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £200 million negative impact from changes in expense assumptions includes an increase in reserves of £77 million in respect of the anticipated costs associated with the implementation of IFRS 17 and £102 million in respect of the delivery of the Group Target Operating Model for IT and Operations. To the extent that the recognition criteria have been met, the Group has also recognised accounting provisions in respect of the anticipated costs of restructuring activity (see note G7 for further details).

Other assumptions includes a £329 million positive impact of harmonising the calibration of prudential margins included within liabilities under insurance contracts in the ReAssure life companies with the rest of the Group and a £47 million positive impact from updating the married rates assumption in respect of reversionary annuities.

2021:
The £272 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2020 projection tables.

The £12 million and £7 million positive impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £275 million negative impact of changes in expense assumptions principally reflects the impact of investment in the Group's growth agenda on the maintenance cost base, including the development of capabilities within the Group's Open business, asset management capabilities and within certain Group functions. The increase in reserves also reflects provision for the anticipated costs associated with the implementation of IFRS 17 and delivery of the Group Target Operating Model for IT and Operations.

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	
2022	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	5,627	36	413	–
Deferred annuities – without guarantees	1,445	289	–	–
Immediate annuities	4,968	–	2,881	–
Unitised with-profit	10,438	22,337	–	–
Total pensions	22,478	22,662	3,294	–
Life:				
Immediate annuities	261	–	1	–
Unitised with-profit	7,687	930	–	–
Life with-profit	1,681	–	9	–
Total life	9,629	930	10	–
Other	1,020	(1)	159	–
Non-profit funds:				
Deferred annuities – with guarantees	310	–	–	–
Deferred annuities – without guarantees	2,851	–	156	–
Immediate annuities	27,279	–	2,137	–
Protection	1,018	–	439	–
Unit-linked	13,096	921	28	–
Other	(182)	5	(81)	–
	77,499	24,517	6,142	–

1 £11,753 million (2021: £9,864 million) of liabilities are subject to longevity swap arrangements.

Notes to the consolidated financial statements
continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued
F4. Risk management – insurance risk continued
F4.2 Managing product risk continued

2021	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	8,746	53	728	–
Deferred annuities – without guarantees	1,753	341	–	–
Immediate annuities	6,506	–	3,787	–
Unitised with-profit	13,344	27,078	–	–
Total pensions	30,349	27,472	4,515	–
Life:				
Immediate annuities	348	–	1	–
Unitised with-profit	9,364	1,137	–	–
Life with-profit	2,166	–	6	–
Total life	11,878	1,137	7	–
Other	1,245	(1)	192	–
Non-profit funds:				
Deferred annuities – with guarantees	555	–	–	
Deferred annuities – without guarantees	983	–	158	–
Immediate annuities	37,329	–	2,885	–
Protection	2,076	–	876	–
Unit-linked	14,891	1,084	22	–
Other	(137)	3	(68)	–
	99,169	29,695	8,587	–

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.

Whilst there has been an increase in interest rates recently, long-term rates remain relatively low compared to historical levels 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.

Notes to the consolidated financial statements
Continued

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 pension scheme asset/liability represents the economic surplus net of all adjustments noted above.

The Group determines the net interest expense or income on the net pension scheme 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 pension scheme 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 pension scheme 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 pension scheme asset/liability, including any reimbursement assets (recognised within net investment income in the consolidated income statement), remeasurements of the net pension scheme asset/liability (recognised in other comprehensive income) and employer contributions.

This note describes the Group's four main defined benefit 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 scheme asset/liability is calculated.

An analysis of the pension scheme (liability)/asset for each pension scheme is set out in the table below and also includes the net pension scheme liability in respect of the Group operated unfunded unapproved retirement benefit scheme ('ReAssure Private Retirement Trust'):

	2022 £m	2021 £m
Pearl Group Staff Pension Scheme		
Economic surplus	**46**	263
Adjustment for insurance policies eliminated on consolidation	**(1,501)**	(1,680)
Net economic deficit	**(1,455)**	(1,417)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**–**	(92)
Net pension scheme liability, as reported	**(1,455)**	(1,509)
Reimbursement right in respect of reinsurance, as reported	**205**	212
Add: value attributed to assets held by PLL within financial assets[1]	**1,576**	1,896
Adjusted net pension scheme asset	**326**	599
PGL Pension Scheme		
Economic surplus	**23**	26
Adjustment for insurance policies eliminated on consolidation	**(1,079)**	(1,618)
Net pension scheme liability, as reported	**(1,056)**	(1,592)
Add: assets held by PLL within financial assets[1]	**1,246**	2,084
Adjusted net pension scheme asset	**190**	492
Abbey Life Staff Pension Scheme		
Economic (deficit)/surplus	**(5)**	12
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**–**	(4)
Minimum funding requirement obligation	**(3)**	(7)
Net pension scheme (liability)/asset	**(8)**	1
ReAssure Staff Pension Scheme		
Economic surplus	**22**	54
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(8)**	(19)
Net pension scheme asset	**14**	35
ReAssure Private Retirement Trust		
Net pension scheme liability	**(1)**	(2)

1 The Pearl Scheme and the PGL Pension Scheme have both executed buy-in transactions with a Group life company and subsequently assets supporting the Group's 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.
In the current and prior periods an adjusted net pension scheme asset has been presented in relation to both these pension schemes. The value of the assets held by PLL within financial assets in respect of the PGL Pension Scheme buy-ins is equal to the assets posted to a ring-fenced collateral account. For the Pearl Scheme the assets held by PLL supporting the buy-ins are not ring-fenced and the value has been determined as the value of the insurance contract liability within the PLL financial statements less the value of the associated reinsurance asset. . Movements in these financial assets are reflected in the consolidated income statement within Net investment income, however as noted in the accounting policy, the movement in the net pension scheme liability (as shown in notes G1.1 and G1.2) is primarily reflected in other comprehensive income.

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued
G1. Pension schemes continued
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 therefore 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 the Group's pension schemes is set out below.

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.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2022, 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 2021 was completed in 2022 by a qualified actuary. This showed a surplus as at 30 June 2021 of £67 million, on the agreed technical provisions basis. 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 transactions
On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with PGH2 to complete a series of buy-ins. At the same time, the Pearl Scheme completed the first buy-in with Phoenix Life Limited ('PLL') covering 25% of the Scheme's pensioner and deferred member liabilities, transferring the associated risks, including longevity improvement risk, to PLL effective from 30 September 2020.

Two further buy-in transactions were completed in July 2021 and October 2021 covering 35% and 15% respectively of the Scheme's pensioner and deferred member liabilities and the final buy-in transaction was completed in November 2022. Risks, including longevity improvement risk, were transferred to PLL effective from 28 May 2021 and 31 August 2021 and 30 September 2022 respectively.

Upon completion of each buy-in transaction the Scheme transferred the following plan assets to PLL:
- In November 2020, £731 million of plan assets were transferred to PLL in satisfaction of the premium of £735 million and was net of a £4 million payment by PLL to the Scheme in respect of members' benefits for October and November 2020;
- In July 2021, £1,049 million of plan assets were transferred to PLL in satisfaction of the premium and a further £12 million cash payment was paid by the Scheme in August 2021. PLL paid £5 million to the Scheme in respect of members' benefits for June and July 2021; and
- In October 2021, £433 million of plan assets were transferred to PLL in satisfaction of the premium of £435 million and was net of a £2 million payment by PLL to the Scheme in respect of members' benefits for September and October 2021. A further £1 million cash payment in respect of the premium was paid by the Scheme in December 2021.
- In November 2022, £556 million of plan assets were transferred to PLL in satisfaction of the premium of £560 million and was net of a £4 million payment by PLL to the Scheme in respect of members' benefits for October and November 2022.

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 transactions in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement right asset which is subsequently eliminated on consolidation. The value of this insurance policy at 31 December 2022 was £1,501 million (2021: £1,680 million) which includes an amount owed by PLL of £2 million (2021: £12 million).

The Commitment agreement contained provisions under which payments by PGH2 to the Scheme were required in the event that the Group did not meet the minimum buy-in completion schedule the details of which are as follows:
- Gilts Deficit Recovery Contributions: Contributions calculated as amounts required to reach full funding on a gilts-basis by 30 June 2027. Following the completion of the recent buy-in transactions, the Group has no further obligation to pay these contributions; and
- Contingent Contributions: These represented a new form of security for the trustee. The amount of these contributions was initially capped at £200 million, with the cap running off in line with completion of the buy-ins. Following the completion of the recent buy-in transactions the cap is now £nil (2021: £50 million).

The new agreement also introduced a new form of security provided by PGH2 to the trustee. The share charges over certain Group entities were replaced by a new surety bond arrangement, whereby two external third-party insurers, each provided £100 million of cover payable to the Scheme following certain trigger events. This cover provided by the surety bond guarantee was fully released upon completion of the final buy-in transaction in November 2022.

No contributions were paid to the Pearl Scheme in either the current or prior periods. PGH2 continues to meet the administrative and non-investment running expenses of the Scheme as set out in the schedule of contributions.

During the year, the Company reached an agreement for the removal of a trustee discretion to pay some pension increases in excess of the 5% cap. The trustee has agreed to give up this discretion in exchange for a single 1.6% uplift for current pensions in payment effective from 1 April 2022 and a 1.3% future increase to eligible benefits of both pension and deferred members. The financial impact of the 1.6% uplift has been to recognise an increase in the defined benefit obligation of £15 million and a past service cost in the consolidated income statement.

Reimbursement right asset in respect of Reinsurance arrangement
In March 2022, PLL entered into a quota share reinsurance arrangement with an external insurer to reinsure a further 27% of the risks transferred to PLL as part of the third buy-in transaction with the Pearl Scheme. A total of approximately 91% of these liabilities have now been reinsured. A premium of £104 million was paid by PLL to the reinsurer. As PLL expects to use the claims received to pay for its obligations under the insurance contract between it and the Pearl scheme (i.e. to settle the defined benefit obligation) the reinsurance arrangement is considered to be a non-qualifying insurance policy and is classified as a reimbursement right. The reinsurance arrangement is expected to match a proportion of the defined benefit obligation of the Pearl Scheme therefore the valuation of the reimbursement right is consistent with the valuation of the associated defined benefit obligation. The value of the reimbursement right asset amounted to £205 million (31 December 2021: £212 million).

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

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2022	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Pension Scheme Liability £m	Reimbursement right £m
At 1 January	807	(2,224)	(92)	(1,509)	212
Interest income/(expense)	16	(52)	(2)	(38)	4
Past service cost	–	(15)	–	(15)	–
Included in profit or loss	16	(67)	(2)	(53)	4
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(208)	–	–	(208)	(101)
Gain from changes in demographic assumptions	–	3	–	3	–
Gain from changes in financial assumptions	–	805	–	805	–
Experience loss	–	(116)	–	(116)	–
Change in provision for tax on economic surplus available as a refund	–	–	94	94	–
Included in other comprehensive income	(208)	692	94	578	(101)
Income received from insurance policies	89	–	–	89	–
Benefit payments	(98)	98	–	–	(14)
Assets transferred as premium for Scheme buy-in	(560)	–	–	(560)	–
Assets transferred as premium for reinsurance arrangement					104
At 31 December	46	(1,501)	–	(1,455)	205

2021	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Pension Scheme Liability £m	Reimbursement right asset £m
At 1 January	2,315	(2,384)	(185)	(254)	–
Interest income/(expense)	24	(33)	(2)	(11)	–
Included in profit or loss	24	(33)	(2)	(11)	–
Remeasurements:					
Return on plan assets excluding amounts included in interest income	27	–	–	27	(49)
Gain from changes in demographic assumptions	–	22	–	22	–
Loss from changes in financial assumptions	–	89	–	89	–
Experience gain	–	(26)	–	(26)	–
Change in provision for tax on economic surplus available as a refund	–	-	95	95	–
Included in other comprehensive income	27	85	95	207	(49)
Income received from insurance policies	46	–	–	46	–
Benefit payments	(108)	108	–	–	–
Assets transferred as premium for Scheme buy-in	(1,497)	–	–	(1,497)	–
Assets transferred as premium for reinsurance arrangement	–	–	–	–	261
At 31 December	807	(2,224)	(92)	(1,509)	212

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2022		2021	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Hedging portfolio	–	–	438	23
Other debt securities	–	–	349	-
Properties	5	5	104	104
Private equities	4	4	4	4
Hedge funds	3	3	4	4
Cash and other	34	–	67	–
Obligations for repayment of stock lending collateral received	–	–	(159)	–
Reported scheme assets	46	12	807	135
Add back:				
Insurance policies eliminated on consolidation	1,501	1,501	1,680	1,680
Economic value of assets	1,547	1,513	2,487	1,815

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 40% (2021: 40%); and
- Pensioners: 60% (2021: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2022 is 13.5 years (2021: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2022 %	2021 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.05	3.20
Rate of increase for deferred pensions (CPI)	2.70	2.70
Discount rate	4.95	2.00
Inflation – RPI	3.30	3.30
Inflation – CPI	2.70	2.70

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.

The post-retirement mortality assumptions are 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 2021 are based on amended CMI 2021 Core Projections (2021: From 1 January 2021 based on amended CMI 2020 Core Projections) and a long-term rate of improvement of 1.5% (2021: 1.7%) per annum for males and 1.2% (2021: 1.2%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.2 years and 30.5 years for male and female members respectively (2021: 29.8 years and 30.6 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
Principal assumptions continued
A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2022 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)	1,501	(40)	42	26	(25)	37	(37)

2021 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)	2,224	(87)	93	70	(68)	80	(80)

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.

Defined benefit scheme
The defined benefit section of the PGL Pension Scheme is a final salary arrangement which is closed to new entrants and has no 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 for 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 2022, 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 2021 was completed in 2022 by a qualified actuary and finalised in January 2023. This showed a surplus as at 30 June 2021 of £2 million. The IFRS valuation cash flows reflect the latest available data and are not limited to being updated following the completion of each funding valuation.

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 plan assets transferred to PLL as premium are held in a collateral account and are recognised in the relevant line within financial assets in the statement of consolidated financial position. The economic effect of these transactions in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation along with the relevant insurance contract liabilities in PLL.

The value of the insurance policies with Group entities at 31 December 2022 is £1,079 million (2021: £1,618 million).

Summary of amounts recognised in the consolidated financial statements
The amounts recognised in the consolidated financial statements are as follows:

2022	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	31	(1,623)	(1,592)
Interest income/(expense)	1	(32)	(31)
Administrative expenses	(4)	–	(4)
Included in profit or loss	(3)	(32)	(35)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	(1)	–	(1)
Gain from changes in demographic assumptions	–	5	5
Gain from changes in financial assumptions	–	531	531
Experience loss	–	(36)	(36)
Included in other comprehensive income	(1)	500	499
Income received from insurance policies	72	–	72
Benefit payments	(72)	72	–
At 31 December	27	(1,083)	(1,056)

2021	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	35	(1,754)	(1,719)
Interest expense	–	(25)	(25)
Administrative expenses	(4)	–	(4)
Included in profit or loss	(4)	(25)	(29)
Remeasurements:			
Gain from changes in demographic assumptions	–	16	16
Gain from changes in financial assumptions	–	70	70
Experience loss	–	(3)	(3)
Included in other comprehensive income	–	83	83
Income received from insurance policies	73	–	73
Benefit payments	(73)	73	–
At 31 December	31	(1,623)	(1,592)

Notes to the consolidated financial statements
Continued

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:

	2022 Total £m	2022 Of which not quoted in an active market £m	2021 Total £m	2021 Of which not quoted in an active market £m
Cash and other	27	–	31	–
Reported scheme assets	27	–	31	–
Add back:				
Insurance policies eliminated on consolidation	1,079	1,079	1,618	1,610
Economic value of assets	1,106	1,079	1,649	1,610

Defined benefit obligation
The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:
- Deferred scheme members: 36% (2021: 36%); and
- Pensioners: 64% (2021: 64%)

The weighted average duration of the defined benefit obligation at 31 December 2022 is 13.5 years (2021: 16 years).

Principal assumptions
The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2022 %	2021 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	3.30	3.30
Rate of increase for deferred pensions (CPI)	2.70	2.70
Discount rate	4.95	2.00
Inflation – RPI	3.30	3.30
Inflation – CPI	2.70	2.70

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.

The post-retirement mortality assumptions are in line with 86%/94% of S1P Light base tables for males and females. Future longevity improvements from 1 January 2021 are based on amended CMI 2021 Core Projections (2021: From 1 January 2021 based on amended CMI 2020 Core Projections) with a long-term rate of improvement of 1.5% (2021: 1.7%) per annum for males and 1.2% (2021: 1.2%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 27.7 years (2021: 28.0 years) and 29.1 years (2021: 28.9 years) for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2022 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)	1,083	(31)	33	23	(22)	30	(30)

2021 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)	1,623	(62)	66	54	(52)	60	(60)

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 and has no active members.

The valuation has been based on an assessment of the liabilities of the Abbey Life Scheme as at 31 December 2022 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 2021 and showed a deficit of £86 million. Following completion of the funding valuation a recovery plan was agreed between the Group and the trustee of the Abbey Life Scheme for PeLHL to pay monthly contributions of £400,000 into the Scheme until 31 July 2025 to eliminate the funding shortfall.

A new schedule of contributions was agreed effective from November 2021, for PeLHL to pay the following amounts in respect of deficit contributions in addition to the amounts payable under the recovery plan:
- fixed monthly contributions of £400,000 payable from 1 August 2025 to 30 June 2026;
- monthly contributions in respect of administration expenses of £106,295 payable up to 31 March 2022, then increasing annually in line with the Retail Prices Index assumption to 30 June 2028; and
- annual payments of £4 million into the New 2016 Charged Account by 31 July each year, with the next payment being made by 31 July 2022, 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 the funding position of the Scheme was assessed as at 31 March 2021 and this assessment revealed a shortfall, calculated in accordance with the terms of the New 2013 Funding Agreement, which exceeded the amount held in the New 2013 Charged Account. As such, the entire balance of £42 million was paid from the New 2013 Charged Account to the Abbey Life Scheme in December 2021.

Under the terms of the New 2016 Funding Agreement the funding position of the Abbey Life Scheme will be assessed as at 31 March 2027. A payment will be made from the New 2016 Charged Account to the Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the New 2016 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the New 2016 Charged Account.

An additional liability of £3 million (2021: £7 million) has been recognised reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £15 million (2021: £21 million) in accordance with the minimum funding requirement. A deferred tax asset of £nil (2021: £4 million) has also been recognised to reflect tax relief at a rate of 19% that is expected to be available on the contributions once paid into the Scheme.

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:

2022	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	330	(318)	(4)	(7)	1
Interest income/(expense)	7	(6)	–	–	1
Administration expenses	(2)	–	–	–	(2)
Included in profit or loss	5	(6)	–	–	(1)
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(123)	–	–	–	(123)
Experience loss	–	(9)	–	–	(9)
Gain from changes in financial assumptions	–	110	–	–	110
Change in minimum funding requirement obligation	–	–	–	4	4
Change in provision for tax on economic surplus available as a refund	–	–	4	–	4
Included in other comprehensive income	(123)	101	4	4	(14)
Employer's contributions	6	–	–	–	6
Benefit payments	(12)	12	–	–	–
At 31 December	206	(211)	–	(3)	(8)

2021	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	280	(341)	–	–	(61)
			–	–	
Interest income/(expense)	4	(5)	–	–	(1)
Administrative expenses	(1)	–	–	–	(1)
Included in profit or loss	3	(5)	–	–	(2)
Return on plan assets excluding amounts included in interest income	11	–	–	–	11
Experience Loss	–	(5)	–	–	(5)
Gain from changes in demographic assumptions	–	6	–	–	6
Loss from changes in financial assumptions	–	15	–	–	15
Change in minimum funding requirement obligation	–	–	–	(7)	(7)
Change in provision for tax on economic surplus available as a refund	–	–	(4)	–	(4)
Included in other comprehensive income	11	16	(4)	(7)	16
Employer's contributions	48	–	–	–	48
Benefit payments	(12)	12	–	–	–
At 31 December	330	(318)	(4)	(7)	1

Scheme assets
The distribution of the scheme assets at the end of the year was as follows:

	2022 Total £m	2022 Of which not quoted in an active market £m	2021 Total £m	2021 Of which not quoted in an active market £m
Diversified income fund	44	–	139	–
Fixed interest government bonds	86	–	68	–
Corporate bonds	87	–	118	–
Derivatives	(15)	(15)	1	1
Cash and cash equivalents	4	–	4	–
Pension scheme assets	206	(15)	330	1

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: 44% (2021: 44%); and
- Pensioners: 56% (2021: 56%).

The weighted average duration of the defined benefit obligation at 31 December 2022 is 13.5 years (2021: 16 years).

Principal assumptions
The principal financial assumptions of the Abbey Life Scheme are set out in the table below:

	2022 %	2021 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.05	3.20
Rate of increase for deferred pensions (CPI subject to caps)	2.70	2.70
Discount rate	4.95	2.00
Inflation – RPI	3.30	3.30
Inflation – CPI	2.70	2.70

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.

The post-retirement mortality assumptions are 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 2021, using the SAPS S3 'Light' tables for males and for females based on year of use. Future longevity improvements from 1 January 2021 are based on amended CMI 2021 Core Projections (2021: From 1 January 2021 based on amended CMI 2020 Core Projections) and a long-term rate of improvement of 1.5% (2021: 1.7%) per annum for males and 1.2% (2021: 1.2%) per annum for females. Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 24.8 years and 25.9 years for male and female members respectively (2021: 24.9 years and 25.7 years respectively).

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
Defined benefit obligation
A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2022 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)	211	(7)	7	4	(4)	7	(7)

2021 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)	318	(12)	13	8	(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. 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 new entrants and to future accrual for active members.

The valuation has been based on an assessment of the liabilities of the ReAssure Scheme as at 31 December 2021 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 2020 and showed a deficit of £77 million.

Following the completion of the 2020 valuation a recovery plan was agreed in September 2021 between the trustee and RML in order to make good the deficit. RML has agreed to pay contributions of £17.7 million into the existing Custody Account spread over four annual payments of £4.425 million payable on 1 April 2022, 1 April 2023, 1 April 2024 and 1 April 2025. It is anticipated that these payments will be sufficient to cover the difference between the funding shortfall and the balance of the Custody Account at 31 December 2020 and to remove any remaining deficit at 31 December 2025.

The amounts held in this account do not form part of the Scheme's plan assets and are instead are held in the Custody Account and are included within financial assets in the statement of consolidated financial position.

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 entitled to those benefits. Payments of £2 million (2021:£1 million) have been made during the year to cover these costs.

Summary of amounts recognised in the consolidated financial statements
The amounts recognised in the consolidated financial statements are as follows:

2022	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	492	(438)	(19)	35
Interest income/(expense)	9	(9)	–	–
Administrative expenses	(1)	–	–	(1)
Included in profit or loss	8	(9)	–	(1)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	(203)	–	–	(203)
Gain from changes in financial assumptions	–	188	–	188
Experience loss	–	(19)	–	(19)
Change in provision for tax on economic surplus available as a refund	–	–	11	11
Included in other comprehensive income	(203)	169	11	(23)
Employer's contributions	3	–	–	3
Benefit payments	(12)	12	–	–
At 31 December	288	(266)	(8)	14

2021	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	477	(461)	(5)	11
Interest income/(expense)	6	(6)	–	–
Administrative expenses	(1)	-	–	(1)
Included in profit or loss	5	(6)	–	(1)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	19	–	–	19
Gain from changes in demographic assumptions	–	1	–	1
Gain from changes in financial assumptions	–	20	–	20
Experience loss	–	(2)	–	(2)
Change in provision for tax on economic surplus available as a refund	–	–	(14)	(14)
Included in other comprehensive income	19	19	(14)	24
Employer's contributions	1	–	–	1
Benefit payments	(10)	10	–	–
At 31 December	492	(438)	(19)	35

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
Scheme assets
The distribution of the scheme assets at the end of the year was as follows:

	2022 Total £m	2022 Of which not quoted in an active market £m	2021 Total £m	2021 Of which not quoted in an active market £m
Equities	31	–	62	–
Government bonds	121	–	151	–
Corporate bonds	83	–	173	–
Managed funds	–	–	60	–
Other quoted securities	45	–	43	–
Cash and cash equivalents	8	–	3	–
Pension scheme assets	288	–	492	–

Defined benefit obligation
The calculation of the defined benefit obligation can be allocated to the ReAssure Scheme's members as follows:
- Deferred scheme members: 66% (2021: 66%); and
- Pensioners: 34% (2021: 34%).

The weighted average duration of the defined benefit obligation at 31 December 2022 is 17 years (2021: 21 years).

Principal assumptions
The principal assumptions of the ReAssure Scheme are set out in the table below:

	2022 %	2021 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.05	3.20
Rate of increase for deferred pensions	2.70	2.70
Rate of increase in salaries	3.70	3.70
Discount rate	4.95	2.00
Inflation – RPI	3.30	3.30
Inflation – CPI	2.70	2.70

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 post-retirement mortality assumptions are in line with SAPS Series 3 light base tables with a 102% (2021: 102%) multiplier for males and a 95% (2021: 95%) multiplier for females, with CMI 2019 projections in line with a 1.5% pa long term trend up to and including 31 December 2020. Future longevity improvements from 1 January 2021 onwards are in line with amended CMI 2021 Core Projections (2021: From 1 January 2021 in line with amended CMI 2020 Core Projections) with a long-term trend of 1.5% pa (2021: 1.7%) for males and 1.2% (2021: 1.2%) for females.

Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 60 is 30.0 years and 31.6 years for male and female members respectively (2021: 30.1 years and 31.4 years for male and female members respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2022

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)	266	(10)	11	8	(8)	7	(7)

2021

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)	438	(21)	23	18	(17)	18	(17)

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.

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued

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.

Brands and other contractual arrangements

Brands and other contractual arrangements are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value as at the date of the acquisition. The cost of an intangible asset acquired in exchange for a non-monetary asset is measured at fair value as at the date of the transaction. Following initial recognition, the brand and other contractual arrangement intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

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.

			Other intangibles			
2022	Goodwill £m	Acquired in-force business £m	Customer relationships £m	Brands and other £m	Total other intangibles £m	Total £m
Cost or valuation at 1 January and 31 December	57	7,007	297	131	428	7,492
Amortisation and impairment						
At 1 January	(47)	(2,630)	(183)	(13)	(196)	(2,873)
Amortisation charge for the year	–	(488)	(15)	(6)	(21)	(509)
Impairment charge for the year	–	(17)	–	–	–	(17)
At 31 December	(47)	(3,135)	(198)	(19)	(217)	(3,399)
Carrying amount	10	3,872	99	112	211	4,093
Less amounts classified as held for sale (see note A6.1)	–	(37)	–	–	–	(37)
Carrying amount at 31 December	10	3,835	99	112	211	4,056
Amount recoverable after 12 months	10	3,382	84	106	190	3,582

			Other intangibles			
2021	Goodwill £m	Acquired in-force business £m	Customer relationships £m	Brands and other £m	Total other intangibles £m	Total £m
Cost or valuation						
At 1 January	57	7,028	297	56	353	7,438
Acquisition of ReAssure businesses	–	–	–	111	111	111
Disposal of Ark Life	–	(21)	–	–	–	(21)
Termination of Client Services Proposition Agreement	–	–	–	(36)	(36)	(36)
At 31 December	57	7,007	297	131	428	7,492
Amortisation and impairment						
At 1 January	–	(2,015)	(168)	(14)	(182)	(2,197)
Amortisation charge for the year	–	(537)	(15)	(5)	(20)	(557)
Impairment charge for the year[1]	(47)	(99)	–	–	–	(146)
Disposal of Ark Life	–	21	–	–	–	21
Termination of Client Services Proposition Agreement	–	–	–	6	6	6
At 31 December	(47)	(2,630)	(183)	(13)	(196)	(2,873)
Carrying amount	10	4,377	114	118	232	4,619
Less amounts classified as held for sale (see note A6.1)	–	(54)	–	–	–	(54)
Carrying amount at 31 December	10	4,323	114	118	232	4,565
Amount recoverable after 12 months	10	3,834	99	112	211	4,055

1 An impairment charge of £59 million in acquired in-force business has been included within the 'gain on completion of abrdn plc transaction' in the consolidated income statement, see note G2.2 for further details.

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued

G2. Intangible assets continued

G2.1 Goodwill

The carrying value of goodwill has been tested for impairment at the year end and the results of this exercise are detailed below.

Goodwill with a carrying value of £10 million (2021: £10 million) was 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 cash flows 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 2028 and beyond, assume a zero growth rate. The underlying assumptions of these projections include market share, customer numbers, commission rates and expense inflation. The cash flows have been valued at a risk adjusted discount rate of 14% (2021: 11%) that makes prudent allowance for the risk that future cash flows may differ from that assumed.

This test demonstrated that value in use was greater than carrying value. Given the magnitude of the excess of the value in use over carrying value, management does not believe that a reasonably foreseeable change in key assumptions would cause the carrying value to exceed value in use.

Goodwill with a cost of £47 million attributed to the Management Services segment was fully impaired during the year ended 31 December 2021.

The Management Services segment generated income solely from the services provided to other operating segments within the Group. As a result of planned investment in the Group's growth agenda, including the development of capabilities of the Open segment and certain Group functions, it was anticipated that the Management Services segment would generate short-term losses in the period until service agreements could be renegotiated. Together with the effect of the expected run-off of the relevant Phoenix Life insurance business, these anticipated short-term losses resulted in an assessment of the recoverable amount of the goodwill to be £nil as at 31 December 2021 and consequently a £47 million impairment charge was recognised.

Value in use was determined as the present value of certain future cash flows associated with this business. The cash flows used in this calculation were valued using a risk adjusted discount rate of 9.5% and were consistent with those adopted by management in the Group's three year operating plan and, for the period 2027 and beyond, reflected 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, expenses, mortality and morbidity, determined on the basis as described in note F4.1.

G2.2 Acquired in-force business

Acquired in-force business ('AVIF') 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.

AVIF on investment contracts without DPF is amortised in line with emergence of economic benefits.

AVIF balances are assessed for impairment where an indicator of impairment has been identified. The following paragraphs set out the impairment indicators identified and the results of the impairment tests carried out.

On 23 February 2021, the Group entered into an agreement with abrdn plc to simplify the arrangements of their Strategic Partnership (see note A6.1 for further details). Under the terms of the transaction, the Group will sell its UK investment and platform related products, comprising Wrap SIPP, Onshore bond and UK TIP to abrdn plc and this will be effected through a Part VII transfer. The balances in the statement of consolidated financial position relating to this business were classified as a disposal group held for sale in February 2021.

The total proceeds of disposal for this business are not expected to exceed the carrying value of the related net assets and accordingly the disposal group has been recognised at fair value less costs to sell. The value of the AVIF at 23 February 2021 was £122 million and an impairment charge of £59 million was recognised in 2021 on classification of the AVIF balance as held for sale. This charge was included within the 'gain on completion of abrdn plc transaction' in the consolidated income statement. A further impairment of £17 million has been recognised during the year (2021: £8 million). The AVIF balance classified as held for sale is not being amortised.

In June 2021, following the Group Board's approval to dispose of Ark Life Assurance Company DAC, the entity was initially classified as a disposal group held for sale. The proceeds of disposal were not expected to exceed the carrying value of the related net assets and accordingly the disposal group was measured at fair value less costs to sell. In 2021, an impairment charge of £18 million was recognised in respect of the AVIF upon classification of the business as held for sale and recognised within 'amortisation and impairment of acquired in-force business' in the consolidated income statement.

In 2021, updates to the reserving methodology in respect of certain blocks of European insurance contracts resulted in a release of reserves of £20 million. This release of reserves was considered to be an indicator of impairment in relation to a component of the AVIF recognised on acquisition of the Standard Life Assurance businesses as it represented an acceleration of the recognition of profits that had been capitalised within the AVIF. Accordingly, an impairment test was performed. The value in use of the AVIF was determined using present value techniques applied to the best estimate cash flows expected to arise from the relevant policies that were in-force at the date of initial recognition of the AVIF, adjusted to reflect an internal view of the required compensation for bearing the uncertainty associated with those cash flows. The key underlying assumptions were management's best estimates with regards to persistency and expenses, which were determined on the basis as described in note F4.1.

It was determined that the carrying value exceeded value in use by £14 million and consequently an impairment charge was recognised. The resultant net carrying value of this component of the Standard Life Assurance AVIF at 31 December 2021 was £49 million.

G2.3 Customer relationships

The customer relationships intangible at 31 December 2022 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 2022 of 6.9 years (2021: 7.9 years).

G2.4 Brands and other intangibles

An intangible asset is recognised at cost on acquisition of the AXA Wealth and 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 and was recognised at a cost of £20 million. 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 carrying value of the AXA Wealth brand as at 31 December 2022 is £8 million.

Following the acquisition of the Standard Life Assurance businesses in 2018 an intangible asset was recognised in respect of the Client Services and Proposition Agreement ('CSPA') with abrdn plc and represented the value of the Group's contractual rights to use the Standard Life brand. The CSPA formalised the Strategic Partnership between the two companies and established the contractual terms by which abrdn plc was previously to continue to market and distribute certain products to be manufactured by Group companies.

On 23 February 2021, the Group entered into an agreement to acquire ownership of the Standard Life brand as part of the transaction with abrdn plc, which transferred to the Group in May 2021. The Standard Life brand was initially recognised at a value of £111 million which represented the fair value attributable to the brand as at the transaction date. The intangible asset was valued on a 'multi-period excess earnings' basis and is being amortised over a period of 30 years. The carrying value of the Standard Life brand as at 31 December 2022 is £104 million.

As part of the transaction with abrdn plc, the CSPA was significantly amended prior to being dissolved. As a consequence, the CSPA intangible included within 'other intangibles' was derecognised. At that time, its carrying value was £30 million and this was included in the calculation of the 'gain on completion of abrdn plc transaction' recognised in the consolidated income statement in the year ended 31 December 2021.

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. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the owner-occupied property and the net amount is restated to the revalued amount of the asset. Gains and losses on owner-occupied property are recognised in other 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 (2021: 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.

Financials continued

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G3. Property, plant and equipment continued

2022	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	29	94	2	59	184
Additions	9	3	–	8	20
Revaluation losses	(6)	–	–	–	(6)
Disposals	–	(1)	–	(2)	(3)
At 31 December	32	96	2	65	195
Depreciation					
At 1 January	–	(24)	(1)	(29)	(54)
Depreciation	–	(9)	–	(10)	(19)
Disposals	–	1	–	2	3
At 31 December	–	(32)	(1)	(37)	(70)
Carrying amount at 31 December	32	64	1	28	125

2021	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	33	78	2	54	167
Additions	1	22	–	12	35
Remeasurement of Right-of-use assets	–	3	–	–	3
Disposals	(5)	(9)	–	(7)	(21)
At 31 December	29	94	2	59	184
Depreciation					
At 1 January	–	(23)	–	(25)	(48)
Depreciation	–	(9)	(1)	(8)	(18)
Disposals	–	8	–	4	12
At 31 December	–	(24)	(1)	(29)	(54)
Carrying amount at 31 December	29	70	1	30	130

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2022 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 £32 million (2021: £29 million) has been categorised as Level 3 based on the non-observable inputs to the valuation technique used. Unrealised loss for the current year is £6 million (2021: £nil).

G3. Property, plant and equipment

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 asset, 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.

	2022 £m	2021 £m
At 1 January	8,592	7,128
Additions	104	819
Improvements	27	22
Disposals	(1,141)	(550)
Remeasurement of right-of-use asset	2	(1)
Movement in foreign exchange	12	(22)
(Losses)/gains on adjustments to fair value (recognised in consolidated income statement)	(1,363)	1,196
	6,233	8,592
Less amounts classified as held for sale (see note A6.1)	(2,506)	(3,309)
At 31 December	3,727	5,283
Unrealised (losses)/gains on properties held at end of year	(1,582)	529

As at 31 December 2022, a property portfolio including amounts classified held for sale of £6,070 million (2021: £8,412 million) is held by the life companies in a mix of commercial sectors, spread geographically throughout the UK and Europe.

Investment properties also includes £62 million (2021: £73 million) of property reversions arising from sales of the NPI Extra Income Plan (see note E5 for further details) and £80 million (2021: £86 million) 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. 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 2022 was £21 million (2021: £21 million). The remeasurement gives rise to an increase of £2 million (2021: reduction of £1 million). There were £2 million additions (2021: £4 million) and £4 million disposals (2021: £nil) of ground rent right-of-use assets during the period.

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 discounted cash flow 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% (2021: 3.7%). 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.

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued
G4. Investment property continued

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 assumption is based on the PMLO8HAWP table for males and the PFLO8HAWP table for females, adjusted to reflect the historic experience of the business concerned. 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. 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% (2021: 5%).

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 2022	Weighted average 2021
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	£22.41	£21.36
		Estimated rental value per hotel room	£7,043	£8,534
		Estimated rental value per parking space	£1,115	£1,097
		Capitalisation rate	5.01%	4.65%

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 £27 million (2021: £41 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £5 million (2021: £1 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2022 £m	2021 £m
Not later than 1 year	356	323
Later than 1 year and not later than 5 years	1,131	1,032
Later than 5 years	3,345	3,128

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.

	2022 £m	2021 £m
Investment broker balances	312	249
Cash collateral pledged and initial margins posted	3,698	958
Property related receivables	145	177
Deferred acquisition costs	133	108
Other debtors	323	313
	4,611	1,805
Amount recoverable after 12 months	122	100

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.

	2022 £m	2021 £m
Bank and cash balances	2,716	5,246
Short-term deposits (including notice accounts and term deposits)	6,156	3,942
	8,872	9,188
Less amounts classified as held for sale	(33)	(76)
At 31 December	8,839	9,112

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 £8,597 million (2021: £8,707 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 is recognised as a separate asset within other receivables and will not exceed the amount of the provision.

						Restructuring provisions				
2022	Leasehold properties £m	Staff related £m	Known incidents £m	Input VAT recovery provision £m	Operational tax provision £m	Transition and Transformation provision £m	Transfer of policy administration provision £m	ReAssure provision £m	Other[1] £m	Total[1] £m
At 1 January	8	9	46	17	12	92	35	2	14	235
Additions in the year	1	–	25	–	–	33	13	–	11	83
Utilised during the year	–	–	(8)	–	–	(28)	(15)	(2)	(13)	(66)
Released during the year	–	(2)	(15)	–	–	–	–	–	(1)	(18)
At 31 December	9	7	48	17	12	97	33	–	11	234

1 Other and total provisions excludes amounts classified as held for sale as at 31 December 2022 of £nil (2021: £2 million).

Leasehold properties
The leasehold properties provision includes a £7 million (2021: £7 million) dilapidations provision in respect of obligations under operating leases and £2 million (2021: £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 £4 million (2021: £5 million), and private medical and other insurance costs for former employees of £3 million (2021: £4 million).

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued

G7. Provisions continued

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. Additional information has been given below in respect of the more significant balances within this provision.

During 2021, a £15 million provision was recognised in relation to errors in final encashment calculations for With Profits Trustee Investment Plans. During 2022, this provision was increased to £29 million following a review of the calculations which have now been finalised and agreed. An £11 million provision was also recognised in April 2021 following identification that certain customers who have a Protected Pension Age or a Protected Tax Free Lump Sum may not have had their benefits settled correctly. During 2022, this provision reduced to £7 million following the release of £4 million after further investigation deemed that one population of customers were no longer impacted. These provisions will be utilised within 2 to 5 years.

In 2020, following completion of the Part VII transfer of the Legal & General business, a £12 million provision was recognised in respect of amounts owed to customers due to various system and processing errors resulting in incorrect rules having been applied to policies. During the year, £3 million (2021: £2 million), of the remaining £9 million provision was utilised and a further £4 million (2021: £1 million) was released. It is expected that the remaining balance of £2 million (2021: £9 million) will be fully utilised within one year.

The remaining provisions of £10 million as at 31 December 2022 (2021: £10 million) are expected to be utilised within one to five years. As at 31 December 2022, there are no significant uncertainties which could give rise to a material change to the value of the provisions held for current known incidents.

Input VAT recovery provision

The provision of £17 million (2021: £17 million) reflects the potential outcome of on-going negotiations with HMRC in relation to the changes to the Partial Exemption Special Method ('PESM') necessitated by the addition of the Standard Life entities to the Phoenix VAT Group. The provision reflects the fact that whilst Phoenix considers its proposal for the recovery of VAT on costs incurred by Standard Life Assets & Employee Services Limited ('SLAESL') to be fair and reasonable, the revised PESM remains to be agreed and HMRC may take a different view. The current provision reflects the Group's maximum exposure as at the reporting date, and was increased by £nil million (2021: £2 million) in the year. It is currently expected that the provision will be utilised within one to two years.

Operational tax provision

The operational tax provision relates to potential 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 maximum exposure as at the reporting date. The balance at 31 December 2022 of £12 million (2021: £12 million) is expected to be utilised within one to two years.

Restructuring provisions

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 are considered a direct expenditure necessarily entailed by the restructuring and represent an obligation arising from arrangements entered into with TCS during 2019. No costs have been provided for that relate to the ongoing servicing of policies. Migration costs payable to TCS are subject to limited uncertainty as they are fixed under the terms of the agreement entered into. There was an increase in costs during 2022 following on from a strategic decision to re-phase the programme. 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. A 10% increase in the number of staff subject to redundancy, based on an average length of service and salary, would increase the provision by £4 million.

During the year, the provision was increased by £33 million (2021: £nil) and a further £28 million (2021: £17 million) was utilised. The remaining £97 million (2021: £92 million) is expected to be utilised within one to three years.

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 to transfer a further £2 million of the Group's legacy policies 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. Migration costs are considered a direct expenditure necessarily entailed by the restructuring and represent an obligation arising from arrangements entered into with TCS during 2018. No costs have been provided for that relate to the ongoing servicing of policies. 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. A 10% increase in the level of severance and exit costs would increase the provision by £1 million. During the year the provision was increased by £13 million (2021: £9 million) and a further £15 million (2021: £9 million) was utilised. The remaining provision of £33 million (2021: £35 million) is expected to be utilised within two years.

ReAssure restructuring provision

During 2020 a £7 million restructuring provision was established in respect of ReAssure Life Limited ('RLL') to cover severance costs. The remaining provision of £2 million was fully utilised during the year.

Other provisions

Other provisions includes £4 million (2021: £4 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.

The remaining other provisions of £7 million (2021: £10 million) consist of a number of small balances all of which are less than £2 million in value.

Discounting

The impact of discounting on all provisions during the year from the 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.

	2022 £m	2021 £m
Current tax:		
Current tax receivable	519	419
Current tax payable	(34)	(19)
Deferred tax:		
Deferred tax assets	158	–
Deferred tax liabilities	(660)	(1,399)

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued

G8. Tax assets and liabilities continued

Movement in deferred tax liabilities

2022	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Other movements £m	Less amounts classified as held for sale £m	31 December £m
Trading losses	109	81	–	8	–	198
Capital losses	32	(8)	–	–	–	24
Expenses and deferred acquisition costs carried forward	57	315	–	(1)	–	371
Provisions and other temporary differences	135	(10)	–	(2)	–	123
Non refundable pension scheme surplus	(255)	391	(287)	–	–	(151)
Committed future pension contributions	–	5	4	–	–	9
Accelerated capital allowances	16	1	–	–	–	17
Intangibles	35	(5)	–	2	–	32
Acquired in-force business	(878)	68	–	–	(3)	(813)
Customer relationships	(57)	4	–	–	–	(53)
Unrealised gains	(593)	333	1	(2)	–	(261)
IFRS transitional adjustments	(5)	5	–	–	–	–
Other	5	(4)	–	1	–	2
	(1,399)	1,176	(282)	6	(3)	(502)

2021	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Other movements £m	Less amounts classified as held for sale £m	31 December £m
Trading losses	30	80	–	(1)	–	109
Capital losses	36	(4)	–	–	–	32
Expenses and deferred acquisition costs carried forward	42	15	–	–	–	57
Provisions and other temporary differences	129	5	–	1	–	135
Non refundable pension scheme surplus	(128)	13	(140)	–	–	(255)
Pension scheme deficit	13	(16)	3	–	–	-
Accelerated capital allowances	8	8	–	–	–	16
Intangibles	39	(2)	–	(2)	–	35
Acquired in-force business	(798)	(90)	–	–	10	(878)
Customer relationships	(33)	(24)	–	–	–	(57)
Unrealised gains	(365)	(230)	–	2	–	(593)
IFRS transitional adjustments	(10)	5	–	-	–	(5)
Other	1	–	–	4	–	5
	(1,036)	(240)	(137)	4	10	(1,399)

The standard rate of UK Corporation tax for the year ended 31 December 2022 is 19% (year ended 31 December 2021: 19%).

An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget on 3 March 2021, and substantively enacted on 24 May 2021. Accordingly, shareholder deferred tax assets and liabilities, where provided, are reflected at rates between 19% and 25% depending on the expected timing of the reversal of the relevant temporary difference. Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	2022 £m	2021 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	73	55
Excess expenses and deferred acquisition costs	112	9
Intangibles	11	9
Deferred tax assets not recognised on capital losses[1]	40	29
Other	6	–

1 These can only be recognised against future capital gains and have no expiry date.

The Group also has £456 million (2021: £109 million) of BLAGAB (life business) trading losses carried forward as at 31 December 2022 across ReAssure Limited, Phoenix Life Limited and Phoenix Life Assurance Limited. £291 million of gross losses are projected to be utilised within these entities, however no value has been attributed to these deferred tax assets given the interaction with other deductible temporary differences (2021: £109 million of gross losses were projected to be utilised and deferred tax assets of £5 million were recognised). Deferred tax assets have not been recognised in respect of the remaining £165 million (2021: £nil) losses due to the uncertainty of future BLAGAB trading profits arising against which the losses could be offset (at entity level).

Deferred tax assets valued at £7 million have been recognised in respect of £156 million (2021: £nil) arising from the interaction with other deductible timing differences on consolidation.

There is a technical matter which is currently being discussed with HMRC in relation to the L&G insurance business transfer to ReAssure Limited. These discussions are not sufficiently progressed at this stage for recognition of any potential tax benefit arising.

A 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) was resolved in the period in favour of the Group. The 2021 current tax liability included an accrual for the total tax under dispute on the basis that there was sufficient risk that the tax treatment of the Group would not then be accepted. In 2022 this tax liability was released.

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 2020, the tax refund for the benefit of the Group's with-profit and unit linked funds increased to £45 million and £23 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. The Group has been discussing the claims with HMRC during the course of 2022, but due to the significant number of cases and years affected, no amounts have as yet been repaid. The level of tax refund expected is currently unchanged as at the end of 2022.

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. Some progress through the courts has been made in the course of 2022, but it is expected that the litigation will continue to run. 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.

	2022 £m	2021 £m
Payables related to direct insurance contracts	1,964	1,864

Notes to the consolidated financial statements
Continued

G. Other statement of consolidated financial position notes continued

G10. Lease liabilities

The operating 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 classified as finance 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.

	2022 £m	2021 £m
At 1 January	99	84
Leases incepted during the year	6	27
Termination of leases following the disposal of associated investment properties	(4)	(1)
Interest expense	3	3
Lease payments	(14)	(16)
Remeasurement of leases	2	2
At 31 December	92	99
Amount due within twelve months	11	10
Amount due after twelve months	81	89

Details of the related right-of-use assets are included in notes G3 and G4.

G11. Accruals and deferred income

This note analyses the Group's accruals and deferred income at the end of the year.

	2022 £m	2021 £m
Accruals	498	498
Deferred income	105	123
Accruals and deferred income including amounts classified as held for sale	603	621
Less amounts classified as held for sale	(37)	(54)
At 31 December	566	567
Amount due for settlement after 12 months	35	26

Deferred income includes consideration deferred as a result of the abrdn transaction pending the Part VII transfer (including amounts offset as a result of the profit share).

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.

	2022 £m	2021 £m
Investment broker balances	513	228
Property related payables	53	73
Investment management fees	48	77
Other payables	351	343
	965	721
Amount due for settlement after 12 months	–	–

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.

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.

Portfolio transfers

When completing an acquisition, the Group first considers whether the acquisition meets the definition of a business combination under IFRS 3 Business Combinations. IFRS 3, and the use of acquisition accounting, does not apply in circumstances where the acquisition of an asset or a group of assets does not constitute a business, and is instead a portfolio of assets and liabilities. In such cases, the Group's policy is to recognise and measure the assets acquired and 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.

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.

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued
H1. Subsidiaries continued

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 2022, PeLHL held £9 million (2021: £11 million) within debt securities and £18 million (2021: £14 million) within cash and cash equivalents in respect of these charged accounts. In December 2021, following completion of the 31 March 2021 funding valuation £42 million of assets were transferred from the charged accounts to the Abbey Life Pension Scheme. Further details of when the remaining 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 2022, RML held £40 million (2021: £57 million) within debt securities and £nil (2021: £1 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.

H2. Associates: investment in UK Commercial Property REIT ('UKCPR')

UKCPR 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 UKCPR 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 UKCPR is limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

As at 31 December 2022, the Group held 44.6% (2021: 44.5%) of the issued share capital of UKCPR and the value of this investment, measured at fair value and included within financial assets, was £329 million (2021: £431 million). Management has concluded that the Group did not control UKCPR 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 UKCPR.

Summary consolidated financial information (at 100%) for UKCPR group is shown below:

	2022 £m	2021 £m
Non-current assets	1,276	1,508
Current assets	83	90
Non-current liabilities	(291)	(248)
Current liabilities	(32)	(25)
	1,036	1,325
Revenue	71	58
(Loss)/profit for the year after tax	(222)	236

H3. 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 Employee Benefit Trust ('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.

H3.1 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 £13 million (2021: £16 million).

As at the reporting date, the Group has no intention to provide financial or other support to any other consolidated structured entity.

H3.2 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.

	2022 Carrying value of financial assets £m	2021 Carrying value of financial assets £m
Equities	968	871
Collective investment schemes	75,389	85,995
Debt securities	8,062	10,991
	84,419	97,857

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.

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued

H4. 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[3]		Ordinary Shares	100.00%
Standard Life International Designated Activity Company (life assurance company – directly owned by the Company)	Dublin[4]		Ordinary Shares	100.00%
Standard Life Pension Funds Limited (life assurance company)	Edinburgh[3]		Limited by Guarantee	100.00%
ReAssure Life Limited (life assurance company)	Telford[5]		Ordinary Shares	100.00%
ReAssure Limited (life assurance company)	Telford[5]		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[3]		Ordinary Shares	100.00%
ReAssure Companies Services Limited (management services company)[1]	Telford[5]		Ordinary Shares	100.00%
PGMS (Ireland) Limited (management services company)	Dublin[6]		Ordinary Shares	100.00%
ReAssure UK Services Limited (management services company)	Telford[5]		Ordinary Shares	100.00%
PA (GI) Limited (non-trading company)	Wythall[2]		Ordinary Shares	100.00%
103 Wardour Street Retail Investment Company Limited (investment company)	Telford[5]		Ordinary Shares	100.00%
3 St Andrew Square Apartments Limited (property management company)	Edinburgh[7]		Ordinary Shares	100.00%
28 Riberia de Loira SL	Madrid[64]		Ordinary Shares	100.00%
Abbey Life Assurance Company Limited (non-trading company)[1]	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)[1]	Wythall[2]		Ordinary Shares	100.00%
Alba LAS Pensions Management Limited (dormant company)[1]	Glasgow[8]		Ordinary Shares	100.00%
Alba Life Trustees Limited (non-trading company)	Edinburgh[3]		Ordinary Shares	100.00%
Axial Fundamental Strategies (US Investments) LLC (investment company)	Delaware[9]		Limited Liability Company	100.00%
BA (FURBS) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
BL Telford Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
Britannic Finance Limited (finance and insurance services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Britannic Group Services Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Britannic Money Investment Services Limited (investment advice company)[1]	Wythall[2]		Ordinary Shares	100.00%
Century Trustee Services Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
CH Management Limited (investment company)	Delaware[10]		Ordinary Shares	100.00%
Cityfourinc (dormant company)[1]	Wythall[2]		Unlimited with Shares	100.00%
ERIP General Partner Limited (General Partner to ERIP Limited Partnership)	Telford[5]		Ordinary Shares	80.00%
ERIP Limited Partnership (Limited Partnership)	Telford[5]		Ordinary Shares	100.00%
G Assurance & Pensions Services Limited (non-trading company)[1]	Telford[5]		Ordinary Shares	100.00%
G Financial Services Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
G Life H Limited (holding company)[1]	Telford[5]		Ordinary Shares	100.00%
G Park Management Company Limited (property management company)	London[11]		Ordinary Shares	100.00%
G Trustees Limited (trustee company)	Telford[5]		Ordinary Shares	100.00%
Gallions Reach Shopping Park (Nominee) Limited (dormant company)	London[11]		Ordinary Shares	100.00%
Gresham Life Assurance Society Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
Iceni Nominees (No. 2) Limited (dormant company)	London[11]		Ordinary Shares	100.00%
IH (Jersey) Limited (dormant company)	Jersey[12]		Ordinary Shares	100.00%
Impala Holdings Limited (holding company)	Wythall[2]		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
Impala Loan Company 1 Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
Inesia SA (investment company)	Luxembourg[13]		Ordinary Shares	100.00%
Inhoco 3107 Limited (dormant company)	London[11]		Ordinary Shares	100.00%
London Life Limited (dormant company)[1]	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[5]		Ordinary Shares	100.00%
National Provident Institution (dormant company)[1]	Wythall[2]		Unlimited without Shares	100.00%
National Provident Life Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
NM Life Trustees Limited (dormant company)	Telford[5]		Ordinary Shares	100.00%
NM Pensions Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
NP Life Holdings Limited (dormant company)[1]	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%
Phoenix (Barwell 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix (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%
Phoenix (Moor House 1) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix (Moor House 2) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (Moor House) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix (Printworks) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix (Stockley Park) Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Pearl (WP) Investments LLC (investment company)	Delaware[9]		Limited Liability Company	100.00%
Pearl AL Limited (dormant company)[1]	Glasgow[8]		Ordinary Shares	100.00%
Pearl Assurance Group Holdings Limited (investment 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[14]		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%
Phoenix Group Management 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%
Phoenix ULA Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 4) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 5) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
PG Dormant (No 6) Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Management Services Limited (dormant company)	London[14]		Ordinary Shares	100.00%
Phoenix Holdings (Bermuda) Limited (non-trading company)	Bermuda[63]		Ordinary Shares	100.00%
Phoenix Group Holdings (Bermuda) Limited (non-trading company)	Bermuda[63]		Ordinary Shares	100.00%
Phoenix Management Services (Bermuda) Limited (non-trading company)	Bermuda[63]		Ordinary Shares	100.00%
Phoenix Management Services Holdings (Bermuda) Limited (non-trading company)	Bermuda[63]		Ordinary Shares	100.00%
Phoenix Re Limited	Bermuda[63]		Ordinary Shares	100.00%
Standard Life Mortgages Limited	Wythall[2]		Ordinary Shares	100.00%
Clyde Gateway Management Company Limited	Edinburgh[7]		Ordinary Shares	100.00%
PGMS (Glasgow) Limited (investment company)[1]	Edinburgh[3]		Ordinary Shares	100.00%

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued
H4. 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
PGMS (Ireland) Holdings Unlimited Company (holding company)	Dublin[6]		Unlimited with Shares	100.00%
PGS 2 Limited (investment company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix & London Assurance Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix Advisers Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix AW Limited (dormant company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix Customer Care Limited (financial services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER1 Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER2 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER3 Limited (finance company)[1]	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER4 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER5 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER6 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Capital Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Group Holdings (non-trading company)	Cayman Islands[18]		Private Company	100.00%
Phoenix Life Assurance Europe DAC	Dublin[19]		Ordinary Shares	100.00%
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 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[3]		Ordinary Shares	100.00%
Phoenix SL Direct Limited (non-trading company)[1]	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%
Phoenix Unit Trust Managers Limited (unit trust manager)	Wythall[2]		Ordinary Shares	100.00%
Phoenix Wealth Holdings Limited (holding company)[1]	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%
ReAssure FS Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure FSH UK Limited (holding company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure Group plc (holding company – directly owned by the Company)	Telford[5]		Ordinary Shares	100.00%
ReAssure Life Pension Trustees Limited (dormant company)	Telford[5]		Ordinary Shares	100.00%
ReAssure LL Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure Midco Limited (holding company)	Telford[5]		Ordinary Shares	100.00%
ReAssure Nominees Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure Pension Trustees Limited (dormant company)	Telford[5]		Ordinary Shares	100.00%
ReAssure PM Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure Trustees Limited (dormant company)	Telford[5]		Ordinary Shares	100.00%
ReAssure Two Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
ReAssure UK Life Assurance Company Limited (dormant company)[1]	Telford[5]		Ordinary Shares	100.00%
Scottish Mutual Assurance Limited (dormant company)[1]	Edinburgh[3]		Ordinary Shares	100.00%
Scottish Mutual Nominees Limited (dormant company)[1]	Edinburgh[3]		Ordinary Shares	100.00%
Scottish Mutual Pension Funds Investment Limited (trustee company)	Edinburgh[3]		Ordinary Shares	100.00%
SL (NEWCO) Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
SL Liverpool plc (dormant company)[1]	Wythall[2]		Public Limited Company	100.00%
SLA Belgium No.1 SA (investment company)	Brussels[20]		Société Anonyme	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
SLA Netherlands No.1 B.V. (investment company)	Amsterdam[21]		Ordinary Shares	100.00%
SLACOM (No. 10) Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
SLACOM (No. 8) Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
SLACOM (No. 9) Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
SLIF Property Investment GP Limited (General Partner to SLIF Property Investment)	Edinburgh[7]		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%
SLA Denmark No.1 ApS (investment company)	Copenhagen[23]		Ordinary Shares	100.00%
SLA Denmark No.2 ApS (investment company)	Copenhagen[23]		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%
Standard Life Assurance (HWPF) Luxembourg S.à.r.l. (investment company)	Luxembourg[24]		Ordinary Shares	100.00%
Standard Life Agency Services Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
Standard Life Investment Funds Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
Standard Life Lifetime Mortgages Limited (mortgage provider company)	Edinburgh[3]		Ordinary Shares	100.00%
Standard Life Master Trust Co. Limited (dormant company)	Wythall[2]		Ordinary Shares	100.00%
Standard Life Private Equity Trust plc (investment company)	Edinburgh[7]		Ordinary Shares	56.01%
Standard Life Property Company Limited (dormant company)	Edinburgh[3]		Ordinary Shares	100.00%
Standard Life Trustee Company Limited (trustee company)	Edinburgh[3]		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[3]		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)[1]	Telford[5]		Ordinary Shares	100.00%
The Phoenix Life SCP Institution (dormant company)[1]	Edinburgh[3]		Limited by Guarantee	100.00%
The Scottish Mutual Assurance Society (dormant company)[1]	Glasgow[8]		Limited by Guarantee	100.00%
The Standard Life Assurance Company of Europe B.V. (financial holding company)	Amsterdam[21]		Ordinary Shares	100.00%
Vebnet (Holdings) Limited (holding company)[1]	Wythall[2]		Ordinary Shares	100.00%
Vebnet Limited (services company)[1]	Wythall[2]		Ordinary Shares	100.00%
Welbrent Property Investment Company Limited (dormant company)	London[11]		Ordinary Shares	100.00%
PC Management Limited (property management company)	Dublin[25]		Ordinary Shares	69.00%
Phoenix Group Employee Benefit Trust	Jersey[26]		Trust	100.00%
330 Avenida de Aragon SL (property management company)	Madrid[27]		Ordinary Shares	100.00%
SLIF Property Investment LP		Edinburgh[7]	Limited Partnership	100.00%
Pearl Private Equity LP		Edinburgh[7]	Limited Partnership	100.00%
Pearl Strategic Credit LP		Edinburgh[7]	Limited Partnership	100.00%
European Strategic Partners LP		Edinburgh[7]	Limited Partnership	72.70%
ASI Phoenix Global Private Equity III LP		Edinburgh[7]	Limited Partnership	100.00%
Janus Henderson Institutional Short Duration Bond Fund		London[29]	Unit Trust	100.00%
Janus Henderson Institutional Mainstream UK Equity Trust		London[29]	Unit Trust	100.00%

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued

H4. 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
Janus Henderson Institutional UK Equity Tracker Trust		London[29]	Unit Trust	100.00%
Janus Henderson Institutional High Alpha UK Equity Fund		London[29]	Unit Trust	85.82%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[29]	OEIC, sub fund	97.93%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[29]	OEIC, sub fund	83.06%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[29]	OEIC, sub fund	85.70%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[29]	OEIC, sub fund	79.82%
PUTM Far Eastern Unit Trust		Wythall[2]	Unit Trust	99.63%
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	99.89%
PUTM UK Equity Unit Trust		Wythall[2]	Unit Trust	99.91%
PUTM Bothwell Asia Pacific (Excluding Japan) Fund		Wythall[2]	Unit Trust	99.63%
PUTM Bothwell Emerging Market Debt Unconstrained Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell European Credit Fund		Wythall[2]	Unit Trust	99.58%
PUTM Bothwell Global Bond Fund		Wythall[2]	Unit Trust	100.00%
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 Long Gilt Sterling Hedged Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell Emerging Markets Equity Fund		Wythall[2]	Unit Trust	99.95%
PUTM Bothwell Sterling Government Bond Fund		Wythall[2]	Unit Trust	99.61%
PUTM Bothwell Euro Sovereign Fund		Wythall[2]	Unit Trust	82.16%
PUTM Bothwell Sterling Credit Fund		Wythall[2]	Unit Trust	99.94%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[2]	Unit Trust	100.00%
PUTM Bothwell UK All Share Listed Equity Fund		Wythall[2]	Unit Trust	99.63%
PUTM ACS UK All Share Listed Equity Fund		Wythall[2]	Unit Trust	100.00%
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 Lothian UK Gilt Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index Asia Pacific ex Japan Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index European Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Emerging Market Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index Japan Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index US Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index UK Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS North American 2 Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS Sustainable Index Emerging Markets Equity Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS UK Smaller Companies Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS North American Fund		Wythall[2]	Unit Trust	100.00%
abrdn Strategic Bond Fund		Edinburgh[7]	Unit Trust	89.91%
abrdn European Trust II		Edinburgh[7]	Unit Trust	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
abrdn Emerging Markets Income Equity Fund		Edinburgh[7]	OEIC, sub fund	78.04%
abrdn Emerging Markets Equity Fund		Edinburgh[7]	OEIC, sub fund	96.86%
abrdn Europe ex UK Ethical Equity Fund		Edinburgh[7]	OEIC, sub fund	80.53%
abrdn European Trust		Edinburgh[7]	Unit Trust	96.78%
abrdn Japan Trust		Edinburgh[7]	Unit Trust	80.67%
abrdn North American Trust		Edinburgh[7]	Unit Trust	99.63%
abrdn Pacific Basin Trust		Edinburgh[7]	Unit Trust	98.39%
abrdn Short Dated UK Government Bond Trust		Edinburgh[7]	Unit Trust	99.96%
abrdn UK Government Bond Trust		Edinburgh[7]	Unit Trust	99.91%
abrdn UK Corporate Bond Trust		Edinburgh[7]	Unit Trust	99.89%
abrdn Active Plus Bond Trust		Edinburgh[7]	Unit Trust	100.00%
abrdn International Trust		Edinburgh[7]	Unit Trust	99.86%
abrdn UK Equity General Trust		Edinburgh[7]	Unit Trust	99.94%
abrdn Short Dated Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	80.55%
abrdn MyFolio Managed I Fund		Edinburgh[7]	OEIC, sub fund	75.49%
abrdn MyFolio Managed II Fund		Edinburgh[7]	OEIC, sub fund	75.37%
abrdn MyFolio Managed III Fund		Edinburgh[7]	OEIC, sub fund	83.05%
abrdn MyFolio Managed V Fund		Edinburgh[7]	OEIC, sub fund	75.09%
abrdn Dynamic Multi Asset Growth Fund		Edinburgh[7]	OEIC, sub fund	95.47%
abrdn American Income Equity Fund		Edinburgh[7]	OEIC, sub fund	74.41%
abrdn Standard SICAV II Absolute Return Global Bond Strategies Fund		Luxembourg[30]	SICAV, sub fund	74.22%
abrdn Standard SICAV II European Equities Fund		Luxembourg[30]	SICAV, sub fund	99.30%
abrdn Standard SICAV II Global Equities Fund		Luxembourg[30]	SICAV, sub fund	88.67%
abrdn Standard SICAV II European Government All Stocks Fund		Luxembourg[30]	SICAV, sub fund	100.00%
abrdn Standard SICAV II Japanese Equities Fund		Luxembourg[30]	SICAV, sub fund	97.45%
abrdn Standard SICAV II Global High Yield Bond Fund		Luxembourg[30]	SICAV, sub fund	54.53%
abrdn Standard SICAV II Global REIT Focus Fund		Luxembourg[30]	SICAV, sub fund	93.22%
abrdn Standard SICAV II China Equities Fund		Luxembourg[30]	SICAV, sub fund	68.15%
abrdn Standard SICAV II Global Emerging Markets Local CCY Debt Fund		Luxembourg[30]	SICAV, sub fund	83.14%
abrdn Standard SICAV II Emerging Market Debt Fund		Luxembourg[30]	SICAV, sub fund	97.87%
ASIMT American Equity Unconstrained Fund		Edinburgh[7]	Unit Trust	78.87%
ASIMT Japan Fund		Edinburgh[7]	Unit Trust	78.81%
ASIMT Global REIT Fund		Edinburgh[7]	Unit Trust	81.32%
ASIMT Sterling Intermediate Credit Fund Launch Fund		Edinburgh[7]	Unit Trust	89.33%
abrdn Liquidity Fund (Lux) – Seabury Sterling Liquidity 3 Fund		Luxembourg[31]	UCITS, sub fund	100.00%
abrdn Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund		Luxembourg[31]	UCITS, sub fund	99.99%
abrdn Standard Liquidity Fund (Lux) – Seabury Euro Liquidity 1 Fund		Luxembourg[31]	UCITS, sub fund	99.99%
Ignis Private Equity Fund LP		Cayman Islands[18]	Limited Partnership	100.00%
Ignis Strategic Credit Fund LP		Cayman Islands[18]	Limited Partnership	100.00%
ASI Phoenix Fund Financing SCSp (PLFF)		Luxembourg[31]	Special Limited Partnership	100.00%
North American Strategic Partners 2008 L.P.		Delaware[9]	Limited Partnership	100.00%

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued
H4. 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
North American Strategic Partners (Feeder) 2008 Limited Partnership		Edinburgh[7]	Limited Partnership	100.00%
Crawley Unit Trust		Jersey[32]	Unit Trust	100.00%
Ignis Strategic Solutions Funds plc – Fundamental Strategies Fund		Dublin[33]	OEIC, sub fund	96.83%
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund		Dublin[33]	OEIC, sub fund	100.00%
HSBC Investment Funds – Balanced Fund		London[34]	OEIC, sub fund	82.18%
IFSL AMR OEIC – IFSL AMR Diversified Portfolio		Bolton[35]	OEIC, sub fund	71.78%
iShares 350 UK Equity Index Fund UK		London[36]	OEIC, sub fund	94.08%
Legal & General European Equity Income Fund		London[37]	Unit Trust	85.74%
Legal & General Growth Trust		London[37]	Unit Trust	75.60%
abrdn Sustainable Index World Equity Fund		Edinburgh[7]	Unit Trust	100.00%
abrdn Sustainable Index UK Equity Fund		Edinburgh[7]	Unit Trust	77.28%
CF Macquaries Global Infrastructure Securities Fund		London[38]	OEIC, sub fund	70.77%
Quilter Investors Global Equity Index Fund		London[39]	OEIC, sub fund	76.55%
Quilter Investors UK Equity Index Fund		London[39]	OEIC, sub fund	84.30%
Associates:				
UK Commercial Property REIT Limited (property investment company)	Guernsey[41]		Ordinary Shares	44.46%
UK Commercial Property Estates Holdings Limited (property investment company)	Guernsey[41]		Ordinary Shares	44.46%
UKCPT Limited Partnership (dormant company)		London[42]	Limited Partnership	44.46%
UK Commercial Property Finance Holdings Limited (property investment company)	Guernsey[41]		Ordinary Shares	44.46%
UK Commercial Property Estates (Reading) Limited (dormant company)	London[42]		Ordinary Shares	44.46%
Duke Distribution Centres S.à.r.l. (investment company)	Luxembourg[44]		Ordinary Shares	44.46%
Duke Offices & Developments S.à.r.l. (investment company)	Luxembourg[44]		Ordinary Shares	44.46%
Significant holdings:				
Janus Henderson Institutional Global Responsible Managed Fund		London[29]	OEIC, sub fund	33.39%
Janus Henderson Institutional UK Index Opportunities Fund		London[29]	OEIC, sub fund	56.15%
Standard Life Capital Infrastructure I LP		Edinburgh[7]	Limited Partnership	48.00%
abrdn (SLI) Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	40.46%
abrdn Emerging Markets Local Currency Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	44.51%
abrdn Global Absolute Return Strategies Retail Acc		Edinburgh[7]	Unit Trust	62.31%
abrdn Dynamic Distribution Fund		Edinburgh[7]	Unit Trust	63.43%
AB SICAV I – Diversified Yield Plus Portfolio		Luxembourg[30]	SICAV, sub fund	36.98%
Standard Life Investments UK Real Estate Accumulation Feeder Fund		Edinburgh[7]	Unit Trust	53.89%
abrdn Global Smaller Company Fund		Edinburgh[7]	Unit Trust	24.07%
abrdn Global Focused Equity Fund		Edinburgh[7]	OEIC, sub fund	46.66%
abrdn UK High Income Equity Fund		Edinburgh[7]	OEIC, sub fund	49.91%
abrdn High Yield Bond Fund		Edinburgh[7]	OEIC, sub fund	21.64%
abrdn UK Opportunities Equity Fund		Edinburgh[7]	OEIC, sub fund	55.59%
abrdn Investment Grade Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	44.22%
abrdn UK Smaller Companies Fund		Edinburgh[7]	OEIC, sub fund	30.76%
abrdn Short Duration Global Inflation-Linked Bond Fund		Edinburgh[7]	OEIC, sub fund	37.23%
abrdn UK Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	53.54%
abrdn Ethical Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	56.62%
abrdn Global Real Estate Fund		Edinburgh[7]	Unit Trust	40.27%
abrdn MyFolio Market I Fund		Edinburgh[7]	OEIC, sub fund	43.39%
abrdn MyFolio Market II Fund		Edinburgh[7]	OEIC, sub fund	47.20%
abrdn MyFolio Market III Fund		Edinburgh[7]	OEIC, sub fund	54.17%

	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
abrdn MyFolio Market IV Fund		Edinburgh[7]	OEIC, sub fund	51.88%
abrdn MyFolio Market V Fund		Edinburgh[7]	OEIC, sub fund	60.81%
abrdn MyFolio Multi-Manager II Fund		Edinburgh[7]	OEIC, sub fund	54.75%
abrdn MyFolio Multi-Manager III Fund		Edinburgh[7]	OEIC, sub fund	65.02%
abrdn MyFolio Multi-Manager IV Fund		Edinburgh[7]	OEIC, sub fund	57.29%
abrdn MyFolio Multi-Manager V Fund		Edinburgh[7]	OEIC, sub fund	60.59%
abrdn MyFolio Managed IV Fund		Edinburgh[7]	OEIC, sub fund	67.78%
abrdn Standard SICAV II European Smaller Companies Fund		Luxembourg[30]	SICAV, sub fund	28.68%
abrdn Standard SICAV II European Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	33.26%
abrdn Standard SICAV II Global Absolute Return Strategies Fund		Luxembourg[30]	SICAV, sub fund	49.38%
abrdn Standard SICAV II Global Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	73.15%
abrdn American Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	26.01%
abrdn Liquidity Fund (Lux) Euro Fund		Luxembourg[31]	UCITS, sub fund	28.60%
abrdn Europe ex UK Income Equity Fund		Edinburgh[7]	OEIC, sub fund	21.51%
abrdn UK Income Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	58.73%
Amundi Index Solutions – Amundi MSCI Emerging Ex China ESG Leaders Select		Luxembourg[40]	SICAV, sub fund	61.30%
Brent Cross Partnership		London[43]	Limited Partnership	23.83%
Gallions Reach Shopping Park Unit Trust		Jersey[32]	Unit Trust	100.00%
Standard Life Investments UK Shopping Centre Trust		Jersey[46]	Unit Trust	40.13%
Gallions Reach Shopping Park Limited Partnership		London[11]	Unit Trust	100.00%
Standard Life Investments Brent Cross LP		Edinburgh[7]	Unit Trust	40.13%
AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund		London[47]	UCITS, sub fund	28.91%
AQR Global Risk Premium UCITS Fund		USA[49]	UCITS, sub fund	96.48%
Threadneedle Investment Funds ICVC – American Select Fund		London[50]	OEIC, sub fund	20.99%
Vanguard Investment Series plc – Vanguard Global Short-Term Corporate Bond Index Fund		Dublin[51]	UCITS, sub fund	23.83%
Vanguard Investment Series plc – Vanguard U.K. Short-Term Investment Grade Bond Index Fund		Dublin[51]	UCITS, sub fund	45.15%
Vanguard Common Contractual Fund – Vanguard U.S. Equity Index Common Contractual Fund		Dublin[51]	UCITS, sub fund	92.82%
Vanguard Investment Series plc – Vanguard Global Corporate Bond Index Fund		Dublin[51]	UCITS, sub fund	22.42%
Vanguard Investments Common Contractual Fund – Vanguard FTST Developed World ex UK Common Contractual Fund		Dublin[51]	UCITS, sub fund	98.17%
MI Somerset Global Emerging Markets Fund		London[53]	OEIC, sub fund	64.46%
abrdn Emerging Markets Equity Enhanced Index Fund		Edinburgh[7]	OEIC, sub fund	20.36%
Amundi UCITS Funds – Amundi Global Multi-Factor Equity Fund		Luxembourg[40]	UCITS, sub fund	61.34%
abrdn SICAV I – Emerging Markets Low Volatility Equity Portfolio		Luxembourg[30]	SICAV, sub fund	87.52%
abrdn SICAV I – GDP Weighted Global Government Bond Fund		Luxembourg[31]	SICAV, sub fund	84.51%
abrdn SICAV I – Global Bond Fund		Luxembourg[31]	SICAV, sub fund	91.69%
abrdn SICAV I – Global Government Bond Fund		Luxembourg[31]	SICAV, sub fund	37.28%
Fidelity Multi Asset Open Adventurous Fund		Surrey[54]	OEIC, sub fund	55.92%
Goldman Sachs SICAV – Emerging Markets Total Return Bond Portfolio		Luxembourg[55]	SICAV, sub fund	87.04%
Janus Henderson Diversified Growth Fund		London[29]	OEIC, sub fund	68.80%
L&G Emerging Markets Bond Fund		Luxembourg[57]	SICAV, sub fund	39.41%
Legal & General European Trust		London[37]	Unit Trust	50.34%
L&G Multi-Asset Target Return Fund		Luxembourg[57]	SICAV, sub fund	39.62%
Legal & General Emerging Markets Government Bond USD Index Fund		London[37]	Unit Trust	26.58%
Legal & General High Income Trust		London[37]	Unit Trust	42.68%
L&G Euro High Alpha Corporate Bond Fund		Luxembourg[57]	SICAV, sub fund	21.28%
Legal & General UK Smaller Companies Trust		London[37]	Unit Trust	30.59%

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued

H4. 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
LGIM Sterling Liquidity Plus Fund		Dublin[51]	UCITS, sub fund	43.41%
Marks and Spencer Worldwide Managed Fund		London[34]	Unit Trust	36.28%
Quilter Investors China Equity Fund		London[39]	OEIC, sub fund	21.88%
Quilter Investors Ethical Equity Fund		London[39]	Unit Trust	50.02%
Quilter Investors Global Equity Growth Fund		London[39]	OEIC, sub fund	46.52%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed Europe ex UK Common Contractual Fund		Dublin[51]	UCITS, sub fund	96.34%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed World Common Contractual Fund		Dublin[51]	UCITS, sub fund	44.19%
Baillie Gifford UK & Balanced Funds ICVC – Baillie Gifford UK and Worldwide Equity Fund		Edinburgh[59]	OEIC, sub fund	24.88%
Baillie Gifford Investment Funds II ICVC – Baillie Gifford UK Equity Core Fund		Edinburgh[59]	OEIC, sub fund	36.11%
abrdn Short Dated Sterling Corporate Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	41.08%
abrdn Global Inflation-Linked Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	49.65%
abrdn Multi-Asset Fund		Edinburgh[7]	OEIC, sub fund	28.45%
abrdn SICAV I – Diversified Income Fund		Luxembourg[31]	SICAV, sub fund	34.44%
abrdn Diversified Growth Fund		London[11]	Unit Trust	24.69%
Amundi Index Solutions – Amundi MSCI China ESG Leaders Select		Luxembourg[40]	SICAV, sub fund	43.46%
Amundi Index Solutions – Amundi Global Corp SRI 1-5Y		Luxembourg[40]	SICAV, sub fund	37.32%
BNY Mellon Multi-Asset Global Balanced Fund		London[60]	UCITS, sub fund	26.37%
Aberdeen Japan Equity Fund		Edinburgh[7]	OEIC, sub fund	24.48%
abrdn European Equity Tracker Fund		Edinburgh[7]	OEIC, sub fund	20.75%
abrdn UK Responsible Equity Fund		Edinburgh[7]	OEIC, sub fund	33.71%
Performance Retail Unit Trust		Jersey[62]	Unit Trust	50.10%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed Europe ex UK Common Contractual Fund		Dublin[51]	UCITS, sub fund	96.34%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed World Common Contractual Fund		Dublin[51]	UCITS, sub fund	44.19%

1 These subsidiaries have been granted audit exemption by parental guarantee by virtue of s.479A of the Companies Act 2006.
2 1 Wythall Green Way, Wythall, Birmingham, West Midlands, B47 6WG, United Kingdom
3 Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH, United Kingdom
4 90 St. Stephen's Green, Dublin, D2, Ireland
5 Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB, United Kingdom
6 Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland
7 1 George Street, Edinburgh, EH2 2LL, United Kingdom
8 301 St Vincent Street, Glasgow, G2 5HN, United Kingdom
9 Corporation Service Company, 2711 Centerville Rd Suite 400, Wilmington, DE 19808, United States
10 Suite 202, 103 Foulk Road, Wilmington, Delaware, 19803, United States
11 Bow Bells House, 1 Bread Street, London, EC4M 9HH, United Kingdom
12 22-24 New Street, St Pauls Gate, 4th Floor, JE1 4TR, Jersey
13 8 Boulevard Royal, L-2449, Luxembourg, Luxembourg
14 20 Old Bailey, London, England, EC4M 7AN, United Kingdom
15 30 Finsbury Square, London, EC2A 1AG, United Kingdom
16 33 Finsbury Square, London, EC2A 1AG, United Kingdom
17 Arthur Cox Building, 10 Earlsfort Terrace, Dublin 2, Dublin, Ireland
18 Ugland House, Grand Cayman, KY1-1104, Cayman Islands
19 25/28 North Wall Quay, Dublin 1, Dublin, Ireland
20 Avenue Louise 326, bte 33 1050 Brussels, Belgium
21 Telestone 8, Teleport, Naritaweg 165, 1043 BW, Amsterdam, Netherlands
22 Citco (Sweden) Ab, Stureplan 4c, 4 Tr, 114 35 Stockholm, Sweden
23 c/o Citco (Denmark) ApS, Holbergsgade 14, 2 .tv, 1057 København K Denmark
24 6B, rue Gabriel Lippmann, Parc d'Activité Syrdall 2, L-5365 Münsbach, Luxembourg
25 5th Floor Beaux Lane House, Mercer Street Lower, Dublin 2, Dublin, Ireland
26 32 Commercial Street, St Helier, Jersey, Channel Islands, JE2 3RU, Jersey
27 Avenida de Aragon 330 – Building 5, 3rd Floor, Parque Empresarial Las Mercedes, 28022 – Madrid, Spain
28 The Pearl Centre, Lynch Wood, Peterborough, PE2 6FY, United Kingdom
29 201 Bishopsgate, London, EC2M 3AE, United Kingdom
30 88 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg
31 35a Avenue J.F. Kennedy, L-1855, Luxembourg
32 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
33 32 Molesworth Street, Dublin 2, Dublin, D02 Y512, Ireland
34 8 Canada Square, London, E14 5HQ, United Kingdom
35 Marlborough House, 59 Chorley New Road, Bolton, BL1 4QP, United Kingdom
36 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom
37 One Coleman Street, London, EC2R 5AA, United Kingdom
38 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom
39 Senator House, 85 Queen Victoria Street, London, EC4V 4AB, United Kingdom
40 5, Allée Scheffer, L-2520 Luxembourg, Luxembourg
41 Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey
42 1 More London Place, London, SE1 2AF, United Kingdom
43 Kings Place, 90 York Way, London, N1 9GE, United Kingdom
44 1, Allée Scheffer, L-2520 Luxembourg, Luxembourg
45 2 Snowhill, Birmingham, B4 6WR, United Kingdom
46 Elizabeth House, 9 Castle Street, St Helier, JE4 2QP, Jersey
47 155 Bishopsgate, London, EX2M 3JX, United Kingdom
48 22 Bishopsgate, London, EC2N 4BQ, United Kingdom
49 Aqr Capital Management LLC, Greenwich, 06830, United States
50 Cannon Place, 78 Cannon Street, London, EC4N 6AG, United Kingdom
51 70 Sir John Rogerson's Quay, Dublin 2, Ireland
52 4th Floor, The Walbrook Building, 25 Walbrook, London, EC4N 8AF, United Kingdom
53 Manning House, 22 Carlisle Place, London, SWIP 1JA, United Kingdom
54 Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP, United Kingdom
55 49, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg
56 Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom
57 10, Château d'Eau, L-3364 Leudelange, Grand Duchy of Luxembourg
58 1st Floor, 2 Ballsbridge Park, Ballsbridge, Dublin, D04 YW83, Ireland
59 Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom
60 160 Queen Victoria Street, London, EC4V 4LA, United Kingdom
61 Grove House, Green Street, St Helier, JE1 2ST, Jersey
62 44-47 Esplanade, St Helier, JE4 9WG, Jersey
63 Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda
64 Calle Nanclares de Oca, 1B, 28022 Madrid

The following subsidiaries were dissolved during the period. The subsidiaries were deconsolidated from the date of dissolution:
- PGH (LC1) Limited
- PGH (LC2) Limited
- PGH (LCA) Limited
- PGH (LCB) Limited
- PGH (MC1) Limited
- PGH (MC2) Limited
- PGH (TC1) Limited
- PGH (TC2) Limited
- PGH Capital PLC
- PUTM Bothwell Japan Tracker Fund
- PUTM Bothwell North America Fund

The following subsidiaries were either fully disposed of or the Group was no longer deemed to control the entity. The subsidiaries were deconsolidated from either the date of disposal or from the date when the Group was deemed to no longer control the subsidiary:
- Aberdeen Standard SICAV II European Equity Unconstrained Fund
- Aberdeen Standard SICAV III Global Short Duration Corporate Bond Fund
- Aberdeen Standard SICAV II Global Bond Fund
- Aberdeen Standard SICAV II Global Emerging Markets Unconstrained Fund
- Aberdeen Standard Liquidity Fund (Lux) Sterling Fund
- Aberdeen Standard SICAV III Dynamic Multi Asset Growth Fund
- ASI Europe ex UK Growth Equity Fund
- ASI Global Real Estate Share Fund
- ASI MyFolio Multi-Manager I Fund
- ASI Phoenix Venture Capital Partners LP
- ASI (Standard Life) Global Equity Trust II
- ASI (Standard Life) Multi-Asset Trust
- Legal & General Dynamic Bond Fund
- Northampton General Partner Limited
- The Pearl Martineau Galleries Limited Partnership
- The Pearl Martineau Limited Partnership
- Quilter Investors Diversified Portfolio Fund
- Quilter Investors UK Equity Large-Cap Value Fund

Notes to the consolidated financial statements
Continued

H. Interests in subsidiaries and associates continued
H4. Group entities continued
The following associates were dissolved during the period. The investment in associate was derecognised from the date of dissolution:
- Brixton Radlett Property Limited
- Moor House General Partner Limited
- UK Commercial Property Estates Limited
- UK Commercial Property GP Limited
- UK Commercial Property Holdings Limited
- UK Commercial Property Nominee Limited

The Group no longer has significant holdings in the following undertakings:
- Aberdeen Standard Global SICAV III Global Equity Impact Fund
- Aberdeen Standard UK Retail Park Trust
- AXA Global High Income Fund
- Blackrock ICS Sterling Government Liquidity Fund
- Castlepoint LP
- Central Saint Giles Unit Trust
- HSBC ETFs PLC – HSBC FTSE EPRA NAREIT Developed UCITS ETF
- L&G Absolute Return Bond Plus Fund
- Legal & General Asian Income Trust
- Legal & General Emerging Markets Government Bond (Local Currency) Index Fund
- Legal & General UK Equity Income Fund
- Legal & General European Index Trust
- Legal & General Global Real Estate Dividend Index Fund
- Legal & General Real Capital Builder Fund
- Legal & General UK Special Situations Trust
- Invesco US Equity Fund
- Quilter Investors Bond 2 Fund
- Quilter Investors Cirilium Moderate Blend Portfolio Fund
- Vanguard FTSE U.K. All Share Index Unit Trust
- Vanguard Investment Series plc – Vanguard U.K. Investment Grade Bond Index Fund

I. Other notes
I1. Share-based payments

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:

	2022 £m	2021 £m
Expense arising from equity-settled share-based payment transactions	16	14

I1.2 Share-based payment schemes
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 2020, 2021 and 2022 LTIP awards are subject to performance conditions tied to the Group's performance in respect of net operating cash receipts, return on shareholder value, persistency and total shareholder return ('TSR'). The 2022 LTIP also included a performance condition tied to the Group's performance on decarbonisation. See page 134 of the Directors' Remuneration Report for further details of the performance conditions.

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.

2022 LTIP awards were granted on 18 March 2022 and are expected to vest on 18 March 2025. The 2019 LTIP awards vested on 11 March 2022. The 2020 awards will vest on 13 March 2023 and the 2021 awards will vest on 12 March 2024. 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 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2020, 2021 and 2022 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2022 TSR performance condition	2021 TSR performance condition	2020 TSR performance condition
Share price (p)	639	738.6	586.3
Expected term (years)	2.8	3.0	3.0
Expected volatility (%)	31	30	20
Risk-free interest rate (%)	1.21	0.14	0.28
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

On 19 August 2022 and 17 August 2021, LTIP awards were granted to certain senior management employees. The vesting periods and performance conditions for these awards are linked to the core 2021 and 2022 LTIP awards respectively.

On 18 March 2022 and 19 August 2022 LTIP Buy-out awards were granted to certain senior management employees. There are discreet vesting periods for these awards and these grants of shares are conditional on the employees remaining in employment with the Group for the vesting period. Similar awards were also issued on 12 March 2021 and 17 August 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 Group's core 2018, 2019 and 2020 LTIP awards.

Each year, the Group issues a Chair'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. The awards are granted on the same dates as the core 2020, 2021 and 2022 LTIP awards. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum good/good performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

Deferred Bonus Share Scheme ('DBSS')
Each year, part of the annual incentive for certain executives is deferred into shares of the 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 2022 DBSS was granted on 18 March 2022 and is expected to vest on 18 March 2025. The 2019 DBSS awards vested on 11 March 2022. The 2020 awards are expected to vest on 13 March 2023 and the 2021 awards are expected to vest on 12 March 2024.

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 across all active UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The 2022 UK Sharesave options were granted on 15 April 2022. Irish Sharesave options are no longer granted.

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 20% discounted exercise price which is calculated using a three-day average share price immediately before invitations are issued to employees. 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.

In 2018, following the scheme of arrangement, participants in the Sharesave plans at this time exchanged their options over shares in the previous parent company for equivalent options over PGH plc ordinary shares. All Sharesave options were increased 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.

Notes to the consolidated financial statements
Continued

Other notes continued
I1. Share-based payment continued
I1.2 Share-based payment schemes continued
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 2018 to 2022 UK Sharesave options:

	2022 sharesave	2021 sharesave	2020 sharesave	2019 sharesave	2018 sharesave
Share price (£)	6.142	7.486	5.664	6.800	7.685
Exercise price (£) (Revised)	5.090	5.890	4.970	5.610	5.629
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	2.0 (for 3.25 year scheme) and 1.9 (for 5.25 year scheme)	0.5 (for 3.25 year scheme) and 0.7 (for 5.25 year scheme)	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)
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	6.3	8.2	6.8	6.5

The information for determining the fair value of the 2021 Irish Sharesave options differed from that included in the table above as follows:
- Share price (€): 8.618
- Exercise price (€): 6.880
- Risk-free rate (%): (0.4) (for 3.25 year scheme) and (0.3) (for 5.25 year scheme)
- No Sharesave awards were granted to Irish employees during 2022.

Share Incentive Plan
The Group operates two Share Incentive Plans ('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, which 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 2022, 543,995 matching shares (excluding unrestricted shares) were conditionally awarded to employees (2021: 391,658).

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 2022		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year, including dividend shares	7,613,036	4,750,822	1,551,935
Granted during the year	3,350,169	1,827,291	1,121,085
Forfeited during the year	(523,125)	(252,992)	(4,917)
Cancelled during the year	–	(506,796)	–
Exercised during the year	(1,328,703)	(816,419)	(443,747)
Dividends on vested awards	275,858	–	77,445
Outstanding at the end of the year	9,387,235	5,001,906	2,301,801

	Number of share options 2021		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	5,488,995	3,569,159	1,267,852
Granted during the year	2,984,144	1,729,022	601,944
Forfeited/cancelled during the year	(290,064)	(240,130)	(5,236)
Exercised during the year	(882,043)	(307,229)	(314,267)
Outstanding at the end of the year, excluding dividend shares – as previously reported	7,301,032	4,750,822	1,550,293
Outstanding dividend shares	312,004	–	1,642
Outstanding at the end of the year, including dividend shares	7,613,036	4,750,822	1,551,935

1 The comparative disclosures for the LTIP and DBSS awards were previously reported excluding dividend shares that had been allocated at the vesting date. These dividend shares are now included within the movement analysis for the year ended 31 December 2022

The weighted average fair value of options granted during the year was £4.34 (2021: £4.98).

The weighted average share price at the date of exercise for the rewards exercised is £6.13 (2021: £7.06).

The weighted average remaining contractual life for the awards outstanding as at 31 December 2022 is 5.7 years (2021: 5.5 years).

I2. Cash flows from operating activities

Operating cash flows include purchases and sales of investment property and financial investments as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims.

The following analysis gives further detail behind the 'cash (utilised)/generated by operations' figure in the statement of consolidated cash flows.

	Notes	2022 £m	2021 £m
Loss for the year before tax		(2,840)	(430)
Adjustments for non-cash movements in loss before tax for the year:			
Gain on completion of abrdn plc transaction	A6.1	–	(110)
Loss on disposal of Ark Life, excluding transaction costs	A6.2	–	17
Fair value losses/(gains) on:			
Investment property	G4	1,363	(1,195)
Financial assets and derivative liabilities		45,197	(9,436)
Change in fair value of borrowings	E5.2	186	(9)
Amortisation and impairment of intangible assets	G2	526	644
Change in unallocated surplus	F2	(378)	(106)
Share-based payment charge	I1.1	16	14
Finance costs	C5	230	242
Net interest expense on Group defined benefit pension scheme liability/asset	G1	64	37
Pension past service costs	G1	15	–
Other costs of pension schemes	G1	7	6
Movement in assets and liabilities relating to operations:			
Decrease in investment assets		3,934	6,738
Decrease/(increase) in reinsurance assets		3,449	(227)
Decrease in assets classified as held for sale		2,741	286
(Decrease)/increase in insurance contract and investment contract liabilities		(44,351)	6,354
Decrease in deposits received from reinsurers		(971)	(521)
Decrease in obligation for repayment of collateral received		(1,740)	(1,762)
Decrease in liabilities classified as held for sale		(3,386)	(264)
Net increase in working capital		(3,034)	(1,100)
Other cash movements relating to operations:			
Contributions to defined benefit pension schemes	G1	(9)	(49)
Cash generated/(utilised) by operations		1,019	(871)

Notes to the consolidated financial statements
Continued

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 52 to 67 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. The 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 dividend policy to pay an ordinary dividend that is sustainable and grows over time.

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'.

The Group operates an Internal Model to calculate Group SCR, all Group companies are within the scope of the internal model, with the exception of acquired ReAssure businesses and the Irish life entity, Standard Life International Designated Activity Company, which determines their capital requirements in accordance with the Standard Formula.

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	2022 £bn	2021 £bn
PGH plc Eligible Own Funds	11.1	14.8
Remove Own Funds pertaining to unsupported with-profit funds and pension schemes	(1.8)	(2.9)
Group capital resources	9.3	11.9

Solvency II surplus – unaudited

An analysis of the PGH plc Solvency II surplus as at 31 December 2022 is provided in the business review section on page 34 to 35. During 2022, both Eligible Own Funds and SCR have decreased principally as a consequence of rising interest rates. This has resulted in a decrease in the present value of certain risks included within the SCR along with a corresponding fall in the value of Own Funds in accordance with the Group's hedging strategy that aims to protect the value of the Solvency II surplus.

The Group has complied with all externally imposed capital requirements during the year.

Notes to the consolidated financial statements
Continued

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*, which comprise a Group pension scheme, an associate and key management personnel

I4.1 Related party transactions
On 23 February 2021, the Group entered into a new agreement with abrdn plc to simplify the arrangements of their Strategic Partnership (see note A6.1 for further details). As part of the acquisition of the brand, the relevant marketing, distribution and data team members transferred to the Group. Consequently, the Client Service and Proposition Agreement ('CSPA') entered into between the two groups following the acquisition of the Standard Life businesses in 2018, was significantly amended prior to being dissolved. As a consequence of this transaction, it has been assessed that abrdn plc no longer has significant influence over the Group and as a result is no longer considered to be a related party of the Group from the date that the Group entered into the new agreement.

During the year, the Group entered into the following related party transactions with a Group pension scheme and an associate:

	Transactions 2022[1] £m	Transactions 2021[1] £m
Pearl Group Staff Pension Scheme		
Payment of administrative expenses	(4)	(4)
UK Commercial Property REIT		
Dividend income	29	17
abrdn plc[2]		
Investment management fees	N/A	(20)
Fees under Transitional Services Arrangement and material outsource agreements	N/A	(4)

1 There were no outstanding balances with related parties as at 31 December 2021 and 31 December 2022.
2 Transactions with abrdn plc only include those that took place prior to 23 February 2021. Balances outstanding as at the date abrdn plc ceased to be a related party of the Group were all settled prior to 31 December 2021.

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:

	2022 £m	2021 £m
Salary and other short-term benefits	5	5
Equity compensation plans	3	3

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 110 to 146.

During the year to 31 December 2022 key management personnel and their close family members contributed £183,933 (2021: £291,546) to Pensions and Savings products sold by the Group. At 31 December 2022, the total value of key management personnel's investments in Group Pensions and Savings products was £525,781 (2021: £3,443,658).

I5. Commitments

This note analyses the Group's other commitments.

	2022 £m	2021 £m
To subscribe to private equity funds and other unlisted assets	1,132	710
To purchase, construct or develop investment property and income strips	62	206
For repairs, maintenance or enhancements of investment property	13	12

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.

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.

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 4 August 2022, the Company announced the proposed acquisition of the entire issued share capital of SLF of Canada UK Limited from the Sun Life Assurance Company of Canada, part of the Sun Life Financial Inc. Group. Regulatory approval for the acquisition was received from the Prudential Regulation Authority on 3 March 2023 and in accordance with the share purchase agreement is expected to complete in April 2023. Total cash consideration of £248 million is payable to the Sun Life Assurance Company of Canada upon completion, subject to certain adjustments.

On 7 February 2023, the Group announced its plan to extend the existing strategic partnership with TCS and Diligenta and intention to move all policies administered on the ReAssure ALPHA platform to the TCS BaNCS platform. This move is expected to have an immaterial impact on the financial statements. The expense assumptions used to determine the relevant liabilities to policyholders at 31 December 2022 reflect the impact of the move to TCS BaNCS and the associated implementation costs.

On 10 March 2023, the Board recommended a final dividend of 26.0p per share for the year ended 31 December 2022 (2021: 24.8p). 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 consolidated financial statements for 2022 and will be charged to the statement of consolidated changes in equity in 2023.

A Barbour
A Briggs
R Thakrar
S Bruce
K Green
H Iioka
K Murray
J Pollock
B Richards
M Semple
N Shott
K Sorenson

10 March 2023

Financials continued

Parent company financial statements

Statement of financial position

As at 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
Property, plant and equipment	10	19	21
Investments in Group entities	11	10,231	10,031
Financial assets			
Loans and deposits	12	2,550	1,234
Derivatives	6	257	69
Debt securities	13	1	1
Collective investment schemes	13	775	690
Deferred tax	14	113	82
Prepayments and accrued income		54	58
Other amounts due from Group entities	20	19	616
Cash and cash equivalents	15	–	95
Total assets		14,019	12,897
EQUITY AND LIABILITIES			
Equity attributable to ordinary shareholders			
Share capital	3	100	100
Share premium	3	10	6
Merger relief reserve	3	1,819	1,819
Other reserve	3	(4)	(4)
Retained earnings		5,062	5,448
Total equity attributable to ordinary shareholders		6,987	7,369
Tier 1 Notes	4	411	411
Total equity		7,398	7,780
Liabilities			
Financial liabilities			
Borrowings	5	6,229	4,387
Derivatives	6	22	5
Obligations for repayment of collateral received	6	86	66
Other amounts due to Group entities	20	43	415
Provisions	7	97	92
Lease liabilities	8	20	21
Accruals and deferred income	9	124	131
Total liabilities		6,621	5,117
Total equity and liabilities		14,019	12,897

The notes identified numerically on pages 293 to 306 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 175 to 289.

Approved by the Board on 10 March 2023.

Andy Briggs
Chief Executive Officer

Rakesh Thakrar
Chief Financial Officer

Company registration number 11606773.

Statement of changes in equity

For the year ended 31 December 2022

	Share capital (note 3) £m	Share premium (note 3) £m	Merger relief reserve (note 3) £m	Other reserve (note 3) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total Equity £m
At 1 January 2022	100	6	1,819	(4)	5,448	7,369	411	7,780
Total comprehensive income for the year attributable to owners	–	–	–	–	116	116	–	116
Issue of ordinary share capital, net of associated commissions and expenses	–	4	–	–	–	4	–	4
Dividends paid on ordinary shares (note B4)	–	–	–	–	(496)	(496)	–	(496)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	(22)	(22)	–	(22)
Credit to equity for equity-settled share-based payments (note I1)	–	–	–	–	16	16	–	16
At 31 December 2022	100	10	1,819	(4)	5,062	6,987	411	7,398

For the year ended 31 December 2021

	Share capital (note 3) £m	Share premium (note 3) £m	Merger relief reserve (note 3) £m	Other reserve (note 3) £m	Retained earnings £m	Total £m	Tier 1 Notes (note 4) £m	Total Equity £m
At 1 January 2021	100	4	1,819	(4)	5,211	7,130	411	7,541
Total comprehensive income for the period attributable to owners	–	–	–	–	728	728	–	728
Issue of ordinary share capital, net of associated commissions and expenses	–	–	–	–	–	2	–	2
Dividends paid on ordinary shares (note B4)	–	–	–	–	(482)	(482)	–	(482)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	(23)	(23)	–	(23)
Credit to equity for equity-settled share-based payments (note I1)	–	–	–	–	14	14	–	14
At 31 December 2021	100	6	1,819	(4)	5,448	7,369	411	7,780

Financials continued

Parent company financial statements continued

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash (utilised)/generated by operations	16	(417)	897
Net cash flows from operating activities		(417)	897
Cash flows from investing activities			
Advances to Group entities		(852)	–
Dividends received from Group entities		455	–
Interest received from Group entities		162	111
Capital contribution to subsidiary (note 11)		(200)	(63)
Repayment of amounts due from Group entities		2	–
Derivative settlements		(70)	–
Net cash flows from investing activities		(503)	48
Cash flows from financing activities			
Proceeds from issuing ordinary shares	3	4	2
Proceeds from new shareholder borrowings, net of associated expenses	5	2,274	–
Repayment of shareholder borrowings	5	(616)	(122)
Ordinary share dividends paid		(496)	(482)
Interest paid on borrowings		(311)	(222)
Lease payments		(1)	(1)
Coupon paid on Tier 1 Notes		(29)	(29)
Net cash flows from financing activities		825	(854)
Net (decrease)/increase in cash and cash equivalents		(95)	91
Cash and cash equivalents at the beginning of the year		95	4
Cash and cash equivalents at the end of the year		–	95

Notes to the parent company financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under a going concern basis and on the historical cost convention, 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 2022 was £116 million (2021: £728 million).

Statement of Compliance

The Company's financial statements have been prepared in accordance with UK- adopted international accounting as applied in accordance with 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 175 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 to date 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 5, 12 and 15.

Debt securities, collective investment schemes and derivatives are measured at FVTPL as they are managed on a fair value basis.

Notes to the parent company financial statements
Continued

1. Accounting policies continued
(b) Accounting policies continued
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 17 for details 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) Critical accounting estimates and judgements
Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The area of the Company's business that typically requires such estimates and judgement is the impairment assessment for investments in Group entities.

Impairment of investments in Group entities
The Company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the Company to estimate the value in use which uses future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. Further details are included in note 11.

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, the Company did not meet the eligibility criteria to defer the application of IFRS 9 and the standard has therefore been adopted by the Company. The relevant disclosures are included in these financial statements.

3. Share capital, share premium, merger relief reserve and other reserve
During 2022, the Company issued 816,419 shares (2021: 303,914 shares) with a premium of £4 million (2021: £2 million) in order to satisfy its obligations to employees under the Group's sharesave schemes.

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 in 2020 as part consideration for the shares of the ReAssure Group plc and securing at least a 90% holding in that entity.

On 12 December 2018, the Company became the ultimate parent undertaking of the Group by acquiring the entire share capital of 'Old PGH' (the Group's ultimate parent company until December 2018) via a share for share exchange. The cost of investment in Old PGH 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.

	2022 £m	2021 £m
Issued and fully paid:		
1000.4 million ordinary shares of £0.10 each (2021: 999.5 million)	100	100

2022	Number	£
Shares in issue at 1 January 2022	999,536,058	99,953,605
Ordinary shares issued in the period	816,419	81,642
Ordinary shares in issue at 31 December 2022	1,000,352,477	100,035,247

2021	Number	£
Shares in issue at 1 January 2021	999,232,144	99,923,214
Other ordinary shares issued in the period	303,914	30,391
Ordinary shares in issue at 31 December 2021	999,536,058	99,953,605

4. Tier 1 notes
The accounting policy and details of the terms for the Tier 1 Notes are included in note D4 to the consolidated financial statements.

	2022 £m	2021 £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 fair value of £411 million in the form of an intragroup loan which was received as consideration.

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.

Notes to the parent company financial statements
Continued

5. Borrowings
The accounting policy for borrowings is included in note E5 to the consolidated financial statements.

	Carrying value		Fair value	
	2022 £m	2021 £m	2022 £m	2021 £m
Loans due to third-parties:				
£428 million subordinated loans (note a)	433	435	429	498
£450 million Tier 3 subordinated notes (note b)	–	449	–	457
US $500 million Tier 2 bonds (note c)	383	337	390	408
€500 million Tier 2 notes (note d)	414	389	416	490
US $750 million Contingent Convertible Tier 1 notes (note e)	618	551	580	581
£500 million Tier 2 notes (note f)	487	485	445	593
US $500 million Fixed Rate Reset Tier 2 notes (note g)	412	368	382	389
£500 million 5.867% Tier 2 subordinated notes (note h)	543	550	465	598
£250 million 4.016% Tier 3 subordinated notes (note i)	256	257	231	264
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note j)	259	266	244	269
	3,805	4,087	3,582	4,547
Loans due to Group companies:				
Loan due to Standard Life Assurance Limited (note k)	309	300	309	300
Senior loan due to ReAssure Limited (note l)	718	–	718	–
€100 million loan due to Standard Life International DAC (note m)	89	–	89	–
£130 million floating term loan to ReAssure Life Limited (note n)	130	–	130	–
Cash-pooling with other Group entities (note o)	1,178	–	1,178	–
	2,424	300	2,424	2,424
Total borrowings	6,229	4,387	6,006	4,847
Amount due for settlement after 12 months	5,051	4,387		

a. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £428 million Tier 2 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. On 20 July 2022, the Company redeemed the £450 million Tier 3 subordinated notes in full at their principal amount, together with interest accrued to the repayment date.

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 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. Further details are contained in note E5 to the consolidated financial statements.

f. 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.

g. 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.

h. 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. 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.

i. 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.

j. On 22 February 2019, the Company recognised a loan due in 2024 to Standard Life Assurance Limited ('SLAL'), a subsidiary undertaking, for £162 million. This loan was the initial consideration for the acquisition from SLAL of its investment in Standard Life International Designated Activity Company ('SLIDAC'). On 28 March 2019 the purchase price was adjusted by £120 million, which resulted in an increase in the loan principal. Interest accrues at SONIA plus 1.9366% and is capitalised. During the year interest of £9 million (2021: £6 million) was capitalised.

k. 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. Interest is payable semi-annually in arrears on 13 June and 13 December.

l. On 31 December 2022, ReAssure Limited ('RAL') issued a £718 million term loan of £718 million to the Company, maturing on 31 December 2027. At the same time, the Company issued a contingent loan to RAL for the same amount (see note 12 (c) for further details). Interest accrues on the term loan asset at a rate of SONIA plus 1.49%. If the Company fails to make payments of principal or interest in accordance with the terms of the loan, a corresponding amount of RAL's obligations under the contingent loan would be offset.

m. On 20 December 2022, Standard Life International DAC ('SLIDAC') issued to the Company a €100 million loan at an interest rate of 2.29% with a maturity date of 31 March 2024.

n. On 16 December 2022, ReAssure Life Limited issued a £130 million floating term loan to the Company at an interest rate of 4.72% for a term of 5 years.

o. On 13 September 2022, the Company entered into an uncommitted intra-group cash-pooling facility with certain subsidiaries, under which the Company will either borrow funds from, or lend funds to, the relevant subsidiary. All amounts due under the facility attract interest at SONIA and are repayable on demand.

p. The Company has in place a £1.25 billion unsecured revolving credit facility, maturing in June 2026. The facility accrues interest at a margin over SONIA that is based on credit rating and non-cumulative compounded risk free rate. The facility remains undrawn as at 31 December 2022.

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.

Notes to the parent company financial statements
Continued

5. Borrowings continued

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 2022 £m	New borrowings, net of costs £m	Repayments £m	Movement in foreign exchange £m	Amortisation £m	Capitalised interest £m	Movement in fair value £m	At 31 December 2022 £m
£428 million subordinated notes	435	–	–	–	(2)	–	–	433
£450 million Tier 3 subordinated notes	449	–	(450)	–	1	–	–	–
US $500 million Tier 2 bonds	337	–	–	41	5	–	–	383
€500 million Tier 2 notes	389	–	–	21	4	–	–	414
US $750 million Contingent Convertible Tier 1 notes	551	–	–	66	1	–	–	618
£500 million Tier 2 notes	485	–	–	–	2	–	–	487
US $500 million Fixed Rate Reset Tier 2 notes	368	–	–	44		–	–	412
£500 million 5.867% Tier 2 subordinated notes	550	–	–	–	(7)	–	–	543
£250 million 4.016% Tier 3 subordinated notes	257	–	–	–	(1)	–	–	256
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	266	–	–	–	(7)	–	–	259
Loan due to Standard Life Assurance Limited	300	–	–	–	–	9	–	309
Senior loan due to ReAssure Limited	–	718[2]	–	–	–	–	–	718
€100 million loan due to Standard Life International DAC	–	88	–	1	–	–	–	89
£130 million floating term loan to ReAssure Life Limited	–	130	–	–	–	–	–	130
Cash-pooling with other Group entities	–	1,338	(166)	–	–	6	–	1,178
Derivative assets[1]	(48)	–	–	–	–	–	(177)	(225)
Derivative liabilities[1]	5	–	–	–	–	–	(5)	–
	4,344	2,274	(616)	173	(4)	15	(182)	6,004

1 Cross currency swaps to hedge against adverse currency movements in respect of Group's Euro and US Dollar denominated borrowings (see note 6 for further details).
2 Settled simultaneously with the issuance of the £718 million contingent loan (see note 12(d)).

	Cash			Non-cashflow				
	At 1 January 2021 £m	New borrowings, net of costs £m	Repayments £m	Movement in foreign exchange £m	Amortisation £m	Capitalised interest £m	Movement in fair value £m	At 31 December 2021 £m
£428 million subordinated notes	436	–	–	–	(1)	–	–	435
£450 million Tier 3 subordinated notes	449	–	–	–	–	–	–	449
US $500 million Tier 2 bonds	329	–	–	3	5	–	–	337
€500 million Tier 2 notes	410	–	–	(24)	3	–	–	389
£300 million senior unsecured bond	123	–	(122)	–	(1)	–	–	–
Loan due to Standard Life Assurance Limited	294	–	–	–	–	6	–	300
US $750 million Contingent Convertible Tier 1 notes	545	–	–	5	1	–	–	551
£500 million Tier 2 notes	484	–	–	–	1	–	–	485
US $500 million Fixed Rate Reset Tier 2 notes	364	–	–	4	–	–	–	368
£500 million 5.867% Tier 2 subordinated notes	556	–	–	–	(6)	–	–	550
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	272	–	–	–	(6)	–	–	266
£250 million 4.016% Tier 3 subordinated notes	259	–	–	–	(2)	–	–	257
Derivative assets[1]	–	–	–	–	–	–	(48)	(48)
Derivative liabilities[1]	–	–	–	–	–	–	5	5
	4,521	–	(122)	(12)	(6)	6	(43)	4,344

1 Cross currency swaps to hedge against currency movements in respect of Group's Euro and US Dollar denominated borrowings (see note 6 for further details).

6. Derivatives

The accounting policy for derivatives is included in note E3 to the consolidated financial statements.

In June 2021, the Company entered into four cross currency swaps in order to hedge against adverse currency movements in respect of its Euro and US Dollar denominated borrowings.

From December 2021, the Company also hedged certain Euro and US Dollar exposures to adverse foreign currency movements in respect of underlying business within two of its subsidiaries, SLAL and SLIDAC.

The fair value of the derivative financial instruments are as follows:

	Asset		Liability	
	2022 £m	2021 £m	2022 £m	2021 £m
Cross currency swaps	225	48	–	5
Foreign currency swaps	32	21	22	–
	257	69	22	5

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 over-the-counter ('OTC') derivative assets is £257 million (2021: £69 million) of which credit risk of £86 million (2021: £66 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 has not pledged any collateral in respect of its OTC derivative liabilities.

7. Provisions

In 2019, the Company recognised a Standard Life transition and transformation restructuring provision of £159 million. During the year, £28 million (2021: £17 million) of the restructuring provision was utilised and the provision was increased by £33 million (2021: £nil). The remaining provision of £97 million (2021: £92 million) is expected to be utilised within one to three years.

Further details, including the accounting policy for provisions, are included in note G7 to the consolidated financial statements.

8. Lease liabilities

The accounting policy for lease liabilities is included in note G10 to the consolidated financial statements.

Lease liabilities relate to office premises at 20 Old Bailey, London. The lease was assigned on 24 March 2021 for a term of 12 years and 9 months, with an option to break the contract on 25 December 2028. It is currently not expected that the break clause will be exercised.

	2022 £m	2021 £m
At 1 January	21	–
Inception of lease	–	22
Lease payments	(1)	(1)
At 31 December	20	21
Amount due within twelve months	1	2
Amount due after twelve months	19	19

Notes to the parent company financial statements
Continued

9. Accruals and deferred income
The accounting policy for accruals and deferred income is included in note G11 to the consolidated financial statements.

	2022 £m	2021 £m
Accruals and deferred income	124	131
Amount due for settlement after 12 months	–	–

10. Property, plant and equipment
The accounting policy for property, plant and equipment is included in note G3 to the consolidated financial statements.

Property, plant and equipment includes the right-of-use asset relating to office premises leased at 20 Old Bailey, London. Depreciation is being charged on a straight line basis over the term of the lease.

	Total Property, Plant and Equipment 2022 £m
Cost or valuation	
At 1 January and 31 December	22
Depreciation	
At 1 January	(1)
Depreciation	(2)
At 31 December	(3)
Carrying amount at 31 December	19

	Total Property, Plant and Equipment 2021 £m
Cost or valuation	
At 1 January	–
Additions	22
At 31 December	22
Depreciation	
At 1 January	–
Depreciation	(1)
At 31 December	(1)
Carrying amount at 31 December	21

11. Investments in group entities

	2022 £m	2021 £m
Cost		
At 1 January	14,220	14,236
Additions	200	63
Acquisition Price Adjustment	–	(79)
At 31 December	14,420	14,220
Impairment		
At 1 January	(4,189)	(4,146)
Charge for the year	–	(43)
At 31 December	(4,189)	(4,189)
Carrying amount		
At 31 December	10,231	10,031

During 2022, a capital contribution was made to Phoenix Life Holdings Limited of £200 million.

On 23 February 2021, the Group entered into a new agreement with abrdn plc to simplify the arrangements of the Strategic Partnership, as described further in note A6.1 to the consolidated financial statements. As part of this transaction, settlement of amounts due under the deed of indemnity by Old PGH resulted in a reduction in the cost of investment in SLAL of £79 million and payment of a capital contribution of £55 million to Old PGH.

In March 2021, the Company subscribed for 850 million ordinary shares in SLAL at par for a consideration of £8 million.

As at 31 December 2022 and 31 December 2021, the market capitalisation of the Company was lower than the net asset value, and this was considered to be an indicator that the Company's investments in its subsidiaries may have been impaired. Where such indicators are identified, an impairment test is performed. As at 31 December 2022, the recoverable amount of the investments in subsidiaries was determined to be greater than carrying value. In 2021, an impairment charge of £43 million was recognised to align the carrying value of certain investments in subsidiaries to the recoverable amount.

As a starting point, the contribution of the life insurance subsidiaries to the recoverable amount has been determined with reference to Solvency II Own Funds, which reflects a probability-weighted best estimate for the expected cash flows under in-force insurance and investment contracts consistent with the Group's operating plan with an allowance for risk, together with an economic valuation of the underlying assets and other liabilities. Suitable adjustments were made to Solvency II Own Funds, in order to align to the expected dividends to be paid by the life insurance subsidiary, which included the removal of the surplus attributable to policyholders in the with-profit funds. Additionally, where relevant, the recoverable amount incorporated the value ultimately expected to accrue to the Company in respect of future new business written. The contribution of the non-insurance subsidiaries was determined using net asset values.

For a list of principal Group entities, refer to note H4 of the consolidated financial statements in which the entities directly held by the Company are separately identified.

Notes to the parent company financial statements
Continued

12. Loans and deposits

	Carrying value 2022 £m	Carrying value 2021 £m	Fair value 2022 £m	Fair value 2021 £m
Loans due from Phoenix Life Holdings Limited (note a)	1,273	1,221	1,279	1,370
Cash-pooling to other Group entities (note b)	546	–	546	–
Loan due from Phoenix Group Employee Benefit Trust (note c)	13	13	13	13
Loan due from ReAssure Limited (note d)	718	–	718	–
Loans and deposits due from Group entities	2,550	1,234	2,556	1,383
Total loans and deposits	2,550	1,234	2,556	1,383
Amounts due after 12 months	2,004	784		

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. None of the loans are considered to be overdue.

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 2022, the carrying value of the loan was £433 million (2021: £435 million).

On 12 December 2018, the Company was assigned a £450 million subordinated loan by PLHL. The loan accrues interest at a rate of 4.158% and matured on 20 July 2022. On 20 July 2022, the amount due on the maturity of the subordinated loan of £450 million was advanced under a new loan to PLHL. The new loan accrued interest at a rate of compounded SONIA rate plus a margin of £1.30% and matures on 31 December 2027. At 31 December 2022, the carrying value of the loan was £457 million (2021: £449 million due under the subordinated loan).

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 increased the carrying value by £41 million (2021: £4 million (decrease)). At 31 December 2022, the carrying value of the loan was £383 million (2021: £336 million).

b) On 13 September 2022, the Company entered into an uncommitted intra-group cash-pooling facility with certain subsidiaries, under which the Company will either borrow funds from, or lend funds to, the relevant subsidiary. All amounts due under the facility attract interest at SONIA and are repayable on demand.

c) On 18 June 2019, the Company was assigned an interest free facility arrangement with Phoenix Group Employee Benefit Trust ('EBT'). As at 31 December 2022, the carrying value of the loan was £13 million (2021: £13 million). The loan is fully recoverable until 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. During the year funding of £12 million (2021: £16 million) was provided to the EBT and £12 million of the loan was impaired (2021: £10 million).

d) On 31 December 2022, the Company issued a contingent loan of £718 million with ReAssure Limited ('RAL') which accrues interest at a rate of SONIA plus 2.95%. Loan repayments and interest payments are made quarterly in arrears. Repayment of principal each quarter is set at the amount of surplus emerging from a specified block of unit-linked business in RAL, less interest payable. The best estimate for the total amount of surplus expected to emerge from this block of business as at 31 December 2022 is £1.4 billion, giving rise to a ratio of loan-to-value of approximately 50%. The contingent loan is expected to be fully repaid by 31 December 2027, five years from the date of issue.

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.

13. Financial assets

	2022 £m	2021 £m
Financial assets at fair value through profit or loss		
Derivatives	257	69
Debt securities	1	1
Collective investment schemes	775	690
	1,033	760
Amounts due after 12 months	1	1

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 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivatives	–	257	–	257
Debt securities	–	–	1	1
Collective investment schemes	775	–	–	775
	775	257	1	1,033

Year ended 31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivatives	–	69	–	69
Debt securities	–	–	1	1
Collective investment schemes	690	–	–	690
	690	69	1	760

There were no transfers between levels in either 2022 or 2021.

Level 3 financial instrument sensitivities
The investment in debt securities is in respect of debt holdings in a property investment structure which was originally transferred to the Company via an in-specie dividend received from Old PGH during 2019. The holding was disposed of during the year ended 31 December 2020, but 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.

14. Deferred tax
The accounting policy for tax assets and liabilities is included in note G8 to the consolidated financial statements.

Movement in deferred tax balances

	1 January 2022 £m	Credit for the year £m	31 December 2022 £m
Provisions and other temporary differences	82	31	113

	1 January 2021 £m	Credit for the year £m	31 December 2021 £m
Provisions and other temporary differences	16	66	82

The standard rate of UK corporation tax for the accounting period is 19% (2021: 19%).

Following cancellation of the planned corporation tax rate reduction from 19% to 17% announced in the Chancellor's Budget of March 2020, an increase to 25% effective from 1 April 2023 was announced in the Budget of 3 March 2021. Deferred tax assets are provided at the rate of 19% for tax losses carried forward to the extent that realisation of the related tax benefit is probable before 1 April 2023; otherwise a rate of 25% has been applied.

Notes to the parent company financial statements
Continued

15. Cash and cash equivalents
The accounting policy for cash and cash equivalents is included in note G6 to the consolidated financial statements.

	2022 £m	2021 £m
Bank and cash balances	–	95

16. Cash flows from operating activities

	2022 £m	2021 £m
Profit for the year before tax	26	661
Non-cash movements in profit for the year before tax:		
Impairment of loan due from subsidiary	12	10
Impairment of investment in subsidiaries	–	43
Investment income	(127)	(111)
Finance costs	287	274
Fair value gains on financial assets	(171)	(62)
Foreign exchange movement on borrowings at amortised cost	173	(11)
Share-based payment charge	16	14
Depreciation	2	1
Decrease in investment assets	290	385
Net increase in working capital	(925)	(307)
Cash (utilised)/generated by operations	(417)	897

17. Capital and risk management
The Company's capital comprises share capital, the Tier 1 Notes and all reserves as calculated in accordance with International Financial Reporting Standards ('IFRS'), 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. The distributable reserves of the Company as at 31 December 2022 were £5,062 million (2021: £5,448 million).

At 31 December 2022, total capital was £7,398 million (2021: £7,780 million). The movement in capital in the period comprises the total comprehensive income for the period attributable to owners of £116 million (2021: £728 million), dividends paid of £496 million (2021: £482 million), coupon paid on Tier 1 Notes, net of tax relief of £22 million (2021: £23 million), credit to equity for equity-settled share-based payments of £16 million (2021 £14 million) and issue of ordinary share capital of £4 million (2021: £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. The Company 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 Company 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:

2022	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 12)	N/A	Performing	12 month ECL	2,550	–	2,550
Other amounts due from Group entities (note 20)	N/A	Performing	12 month ECL	19	–	19

2021	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 12)	N/A	Performing	12 month ECL	1,234	–	1,234
Other amounts due from Group entities (note 20)	N/A	Performing	12 month ECL	616	–	616
Cash and cash equivalents (note 15)	A	N/A	12 month ECL	95	–	95

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 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 to be of 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 Employee Benefit Trust are discussed in note 12.

Amounts due from other Group entities – The credit risk from activities undertaken in the normal course of business is considered to be extremely low. 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 as at 31 December 2021 were held with bank and financial institution counterparties which had investment grade 'A' credit ratings. The Company considered the associated credit risk was low based on the external credit ratings of the counterparties and, there being no history of default, the impact to the net carrying amount stated in the table above is therefore considered not to be 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.

18. Share-based payments
Detailed information on the Long-term incentive plans, Sharesave schemes and Deferred bonus share schemes is contained in note I1 in the consolidated financial statements.

19. Directors' remuneration
Details of the remuneration of the Directors of Phoenix Group Holdings plc is included in the Directors' Remuneration Report on pages 110 to 146 of the Annual Report and Accounts.

Notes to the parent company financial statements
Continued

20. 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.

During the year ended 31 December 2022, the Company entered into the following transactions with related parties.

	2022 £m	2021 £m
Dividend income from other Group entities	455	957
Interest income from other Group entities	124	111
	579	1,068
Impairment of investment in subsidiaries	–	43
Expense to other Group entities	246	205
Interest expense to other Group entities	60	43
	306	291

Amounts due from related parties at the end of the year:

	2022 £m	2021 £m
Loans due from Group entities	2,004	1,234
Interest accrued on loans due from Group entities	29	35
Other amounts due from Group entities	19	616
	2,598	1,885
Amount due for settlement after 12 months	2,004	784

Amounts due to related parties at the end of the year:

	2022 £m	2021 £m
Loans due to Group entities	2,424	300
Interest accrued on loans due to Group entities	14	14
Other amounts due to Group entities	43	415
	2,481	729
Amount due for settlement after 12 months	1,246	300

21. 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.

22. Events after the reporting period
Details of events after the reporting date are included in note I7 to the consolidated financial statements.

A Barbour
A Briggs
R Thakrar
S Bruce
K Green
H Iioka
K Murray
J Pollock
B Richards
M Semple
N Shott
K Sorenson

10 March 2023

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 2022

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total £m
Cash and cash equivalents	4,385	1,027	5,312	6,445	17,169
Debt securities – gilts and foreign government bonds	4,913	260	15,065	13,212	33,450
Debt securities – other government and supranational	1,691	242	1,717	2,341	5,991
Debt securities – infrastructure loans – project finance[3]	922	–	–	–	922
Debt securities – infrastructure loans – corporate [4]	1,205	–	1	–	1,206
Debt securities – local authority loans[5]	686	1	2	4	693
Debt securities – loans guaranteed by export credit agencies and supranationals[6]	509	–	–	–	509
Debt securities – private corporate credit [7]	1,660	–	100	8	1,768
Debt securities – loans to housing association [8]	769	–	8	2	779
Debt securities – commercial real estate loans[9]	1,104	–	–	–	1,104
Debt securities – equity release mortgages[9]	3,934	–	–	–	3,934
Debt securities – other debt securities	13,895	1,118	13,067	33,515	61,595
	31,288	1,621	29,960	49,082	111,951
Equity securities	109	46	17,114	94,462	111,731
Property investments	68	22	1,698	5,361	7,149
Income strips[9]	–	–	–	786	786
Other investments[10]	(1,238)	(506)	738	9,271	8,265
Total Life Company assets	34,612	2,210	54,822	165,407	257,051
Less assets held by disposal groups[11]	–	–	–	(8,312)	(8,312)
At 31 December 2022	34,612	2,210	54,822	157,095	248,739
Cash and cash equivalents in Group holding companies					502
Cash and financial assets in other Group companies					1,071
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,213
Financial assets in consolidated funds held by disposal groups[11]					1,147
Total Group consolidated assets excluding amounts classified as held for sale					255,672
Comprised of:					
Investment property					3,727
Financial assets					248,981
Cash and cash equivalents					8,839
Derivative liabilities					(5,875)
					255,672

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 Total infrastructure loans – project finance of £922 million include £882 million classified as Level 3 debt securities in the fair value hierarchy.
4 Total infrastructure loans – corporate of £1,206 million include £1,175 million classified as Level 3 debt securities in the fair value hierarchy
5 Total local authority loans of £693 million include £596 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total loans guaranteed by export credit agencies and supranationals of £509 million include £402 million classified as Level 3 debt securities in the fair value hierarchy.
7 Total private corporate credit of £1,768 million include £1,422 million classified as Level 3 debt securities in the fair value hierarchy.
8 Total loans to housing associations of £779 million include £691 million classified as Level 3 debt securities in the fair value hierarchy.
9 All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.
10 Includes policy loans of £11 million, other loans of £398 million, net derivative liabilities of £(1,837) million, reinsurers' share of investment contracts of £9,088 million and other investments of £605 million.
11 See note A6.1 to the consolidated financial statements for further details.

Additional life company asset disclosures
Continued

31 December 2021

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	5,437	1,644	7,103	9,691	23,875
Debt securities – gilts and foreign government bonds	8,687	311	20,623	14,170	43,791
Debt securities – other government and supranational	2,381	318	2,088	3,051	7,838
Debt securities – infrastructure loans – project finance[3,4]	1,026	–	1	–	1,027
Debt securities – infrastructure loans – corporate[3,5]	1,118				1,118
Debt securities – local authority loans and US municipal bonds[3,6]	1,140	–	10	6	1,156
Debt securities – loans guaranteed by export credit agencies and supranationals[3,7]	373	–	–	–	373
Debt securities – private corporate credit[3,8]	1,928	1	169	27	2,125
Debt securities – loans to housing associations [3,9]	1,161	–	9	3	1,173
Debt securities – commercial real estate loans[3,10]	1,317				1,317
Debt securities – equity release mortgages [3,10]	4,214				4,214
Debt securities – other debt securities	16,713	1,432	16,274	28,218	62,637
	40,058	2,062	39,174	45,475	126,769
Equity securities	122	61	20,386	113,779	134,348
Property investments	76	26	2,248	7,906	10,256
Income strips[3,10]	–	–	–	886	886
Other investments[11]	623	341	3,098	10,119	14,181
Total Life Company assets	46,316	4,134	72,009	187,856	310,315
Less assets held by disposal group [12]	–	–	–	(11,676)	(11,676)
At 31 December 2021	46,316	4,134	72,009	176,180	298,639
Cash and cash equivalents in Group holding companies					964
Cash and financial assets in other Group companies					793
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,155
Financial assets in consolidated funds held by disposal group [12]					1,788
Total Group consolidated assets excluding amounts classified as held for sale					306,339
Comprised of:					
Investment property					5,283
Financial assets					293,192
Cash and cash equivalents					9,112
Derivative liabilities					(1,248)
					306,339

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 The illiquid asset classes have been represented to align with those used in the Group's Internal Model.
4 Total infrastructure loans – project finance of £1,027 million include £967 million classified as Level 3 debt securities in the fair value hierarchy.
5 Total infrastructure loans – corporate of £1,118 million include £1,074 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total local authority loans and US municipal bonds of £1,156 million include £917 million classified as Level 3 debt securities in the fair value hierarchy.
7 Total loans guaranteed by export credit agencies and supranationals of £373 million include £219 million classified as Level 3 debt securities in the fair value hierarchy.
8 Total private corporate credit of £2,125 million include £1,488 million classified as Level 3 debt securities in the fair value hierarchy.
9 Total loans to housing associations of £1,173 million include £1,022 million classified as Level 3 debt securities in the fair value hierarchy.
10 All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.
11 Includes policy loans of £11 million, other loans of £248 million, net derivative assets of £3,309 million, reinsurers' share of investment contracts of £10,009 million and other investments of £604 million.
12 See note A6.1 to the consolidated financial statements for further details.

The following table provides a reconciliation of the total life company assets to the Assets under Administration ('AUA') as at 31 December 2022 detailed in the Business Review on page 37.

	2022 £bn	2021 £bn
Total Life Company assets excluding amounts classified as held for sale	248.7	298.6
Off-balance sheet AUA[1]	10.3	11.8
Assets Under Administration	259.0	310.4

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 consolidated statement of financial position) but on which the Group earns fee revenue.

All of the life companies' debt securities are held at fair value through profit or loss under IAS 39, 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 and non-profit fund bond portfolio

	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	395	252	643	11	1,301
Basic materials	–	1	130	6	–	137
Consumer, cyclical	–	311	314	111	67	803
Technology and telecoms	186	288	517	551	–	1,542
Consumer, non-cyclical	246	328	802	231	–	1,607
Structured finance	–	–	38	–	–	38
Banks[2]	526	464	2,919	344	39	4,292
Financial services	139	401	100	68	19	727
Diversified	–	5	29	–	–	34
Utilities	19	141	727	1,353	–	2,240
Sovereign, sub-sovereign and supranational[3]	932	5,838	509	116	2	7,397
Real estate	76	234	2,590	1,053	180	4,133
Investment companies	1	125	–	5	–	131
Insurance	22	354	321	70	43	810
Oil and gas	–	132	346	55	–	533
Collateralised debt obligations	–	7	–	–	–	7
Private equity loans	–	–	7	69	–	76
Infrastructure	–	123	60	1,208	155	1,546
Equity release mortgages[4]	2,216	852	810	56	–	3,934
At 31 December 2022	4,363	9,999	10,471	5,939	516	31,288

1 Includes unrated holdings of £108 million.
2 The £4,292 million total shareholder exposure to bank debt comprised £3,345 million senior debt and £947 million subordinated debt.
3 Includes £686 million reported as local authority loans, £1,660 million reported as private corporate credit and £509 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 307.
4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.

Additional life company asset disclosures
Continued

Sector analysis of shareholder and non-profit fund bond portfolio

	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	165	329	820	6	1,320
Basic materials	–	1	166	29	–	196
Consumer, cyclical	11	438	461	302	148	1,360
Technology and telecoms	165	268	592	735	3	1,763
Consumer, non-cyclical	258	271	966	338	–	1,833
Structured finance	–	–	52	–	–	52
Banks[2]	662	769	2,750	578	19	4,778
Financial services	51	281	382	147	5	866
Diversified	–	6	28	–	–	34
Utilities	25	121	1,304	1,272	2	2,724
Sovereign, sub-sovereign and supranational[3]	1,465	9,983	827	109	–	12,384
Real estate	27	183	3,364	757	254	4,585
Investment companies	30	200	2	–	–	232
Insurance	16	428	426	38	22	930
Oil and gas	–	147	381	81	–	609
Collateralised debt obligations	–	8	–	–	–	8
Private equity loans	–	–	–	26	–	26
Infrastructure	–	84	236	1,620	204	2,144
Equity release mortgages[4]	2,085	1,144	963	–	22	4,214
At 31 December 2021	4,795	14,497	13,229	6,852	685	40,058

1 Includes unrated holdings of £113 million.
2 The £4,778 million total shareholder exposure to bank debt comprised £3,732 million senior debt and £1,046 million subordinated debt.
3 Includes £1,082 million reported as local authority loans & US municipal bonds, £42 million reported as private corporate credit and £205 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 308.
4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.
5 The illiquid asset classes have been represented to align with those used I the Group's Internal Model.

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 2022 £m	Corporate and other 2022 £m	Total 2022 £m	Sovereign, sub-sovereign and supranational 2021 £m	Corporate and other 2021 £m	Total 2021 £m
UK	5,914	13,781	19,695	10,216	17,076	27,292
Supranationals	541	45	586	800	–	800
USA	317	5,122	5,439	340	4,881	5,221
Germany	46	716	762	112	418	530
France	153	921	1,074	230	1,207	1,437
Netherlands	24	417	441	117	769	886
Italy	–	145	145	–	171	171
Ireland	–	74	74	–	57	57
Spain	17	103	120	26	105	131
Luxembourg	56	118	174	60	22	82
Belgium	28	83	111	39	111	150
Australia	1	386	387	1	503	504
Canada	6	385	391	99	303	402
Mexico	2	137	139	2	192	194
Other – non-Eurozone[1]	252	1,241	1,493	288	1,579	1,867
Other – Eurozone	40	217	257	54	280	334
Total shareholder debt securities	7,397	23,891	31,288	12,384	27,674	40,058

1 There was no shareholder exposure to Russia, Ukraine and Belarus at 31 December 2022. In the prior year, this included £2 million sovereign debt and £21 million corporate and other debt with exposure to Russia only.

Additional capital disclosures

PGH PLC Solvency II surplus
The PGH plc surplus at 31 December 2022 is £4.4 billion (2021: £5.3 billion).

	31 December 2022 Estimated £bn	31 December 2021 £bn
Own Funds	11.1	14.8
SCR	(6.7)	(9.5)
Surplus	4.4	5.3

Calculation of group solvency
The Group wholly uses Method 1 to calculate Group solvency. The Group continues to determine its capital requirements on a partial internal model basis.

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 2022 Estimated £bn	31 December 2021 £bn
Tier 1 – Unrestricted	7.1	9.9
Tier 1 – Restricted	1.0	1.1
Tier 2	2.6	2.9
Tier 3	0.4	0.9
Total Own Funds	11.1	14.8

PGH plc's unrestricted Tier 1 capital accounts for 63% (2021: 67%) 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 £0.2 billion (2021: £0.7 billion) and the deferred tax asset of £0.2 billion (2021: £0.2 billion).

Breakdown of SCR
The Group operates one single PRA approved Internal Model covering all the Group entities, with the exception of the Irish entity, Standard Life International Designated Activity Company ('SLIDAC') and the acquired ReAssure businesses. SLIDAC and 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 2022 Estimated		31 December 2021	
	Internal Model %	ReAssure and SLIDAC Standard Formula %	Internal Model %	ReAssure and SLIDAC Standard Formula %
Longevity	15	17	22	21
Credit	17	19	18	21
Persistency	18	28	20	22
Interest rates	8	6	9	8
Operational	8	4	6	3
Swap spreads	2	–	3	–
Property	4	1	4	1
Other market risks	15	14	12	14
Other non-market risks	13	11	6	10
Total pre-diversified SCR	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 of the Group. The Group wholly uses Method 1 (the default accounting based consolidation method) to calculate Group solvency following the approval of the internal model by the PRA during the year.

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 2022 is £2.3 billion (2021: £3.0 billion).

PGH plc's Eligible Own Funds to cover MGSCR is £8.4 billion (2021: £11.5 billion) leaving an excess of Eligible Own Funds over MGSCR of £6.1 billion (2021: £8.5 billion), which translates to an MGSCR coverage ratio of 369% (2021: 387%).

Alternative performance measures

The Group assesses its financial position and performance based on a range of measures. Some of these are management derived measures that 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 28.

APM	Definition	Why this measure is 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 statement of consolidated 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 statement of consolidated financial position to the Group's AUA is provided on page 309.
Adjusted operating profit	Adjusted operating profit is a financial performance measure based on expected long-term assumptions. It is stated before tax and excludes amortisation and impairments of intangibles, finance costs attributable to owners and other items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Items excluded from adjusted operating profit are referred to as non-operating items. 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 B2.1 to the 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 adjusted operating profit to the IFRS result before tax attributable to owners is included in the business review on page 38.
Fitch leverage ratio	The Fitch leverage ratio 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 excluding subordinated liabilities qualifying as Tier 1 Own Funds under Solvency II. Equity is defined as the sum of equity attributable to the owners of the parent, non-controlling interests, the unallocated surplus, subordinated liabilities qualifying as Tier 1 Own Funds under Solvency II and the Tier 1 Notes. Values for debt and equity are adjusted to allow for the impact of currency hedges in place over foreign currency denominated debt.	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 statement of consolidated financial position on pages 170 and 172 and the analysis of borrowings note on page 217.
Group In-force Long-term Free Cash ('Group in-force LTFC')	Group in-force LTFC represents the cash expected to be available over time to fund future dividends from today's in-force business. It is defined as the estimated lifetime cash generation from our in-force business, plus Group cash held in the Holding Company, less outstanding shareholder debt, committed M&A and transition costs, and interest on debt until maturity.	Group in-force LTFC provides a measure of the Group's total long-term cash available for operating costs, interest, growth and shareholder returns. Increases in Group in-force LTFC will be driven by sources of long-term cash i.e. new business and over-delivery of management actions. Decreases in Group in-force LTFC will reflect the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends. The calculation for the LTIP performance metric excludes any future shareholder dividends and is before interest on debt until maturity.	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 Group in-force 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 on page 217.
Incremental new business long-term cash generation	Incremental new business 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.	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 according to their 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 on page 35 for further analysis of the solvency positions of the Life Companies.
Operating companies' cash generation	Represents the net cash remitted from the operating entities to the Group, supported by the free surplus above capital requirements in the life companies, which is generated through margins earned on different life and pension products and the release of capital requirements, and group tax relief.	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. The AIP performance metric 'cash generation' is aligned to this definition.	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 28 to 41, 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 307.
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 34.

Policy for making pro forma adjustments in the Annual Report and Accounts

Pro forma adjustments will be used in the Annual Report and Accounts ('ARA') where management considers that they allow the users of the ARA to better understand the financial performance, financial position, cash flows or outlook of the Group.

Examples of where pro forma adjustments may be used are in relation to acquisitions or disposals which are material to the Group, changes to the Group's capital structure or changes in reporting frameworks the Group applies such as Solvency II or IFRS. Where pro forma adjustments are considered necessary for the understanding of the financial performance, financial position, cash flows or outlook of the Group these will be clearly labelled as pro forma with a clear explanation provided as to the reason for the adjustments and the Key Performance Indicators, Alternative Performance Metrics and other performance metrics impacted.

Additional information

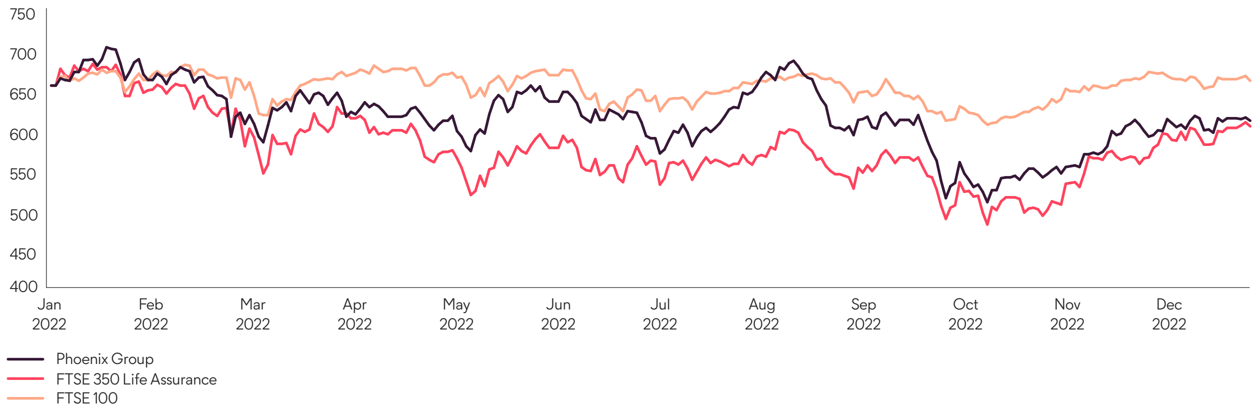
Shareholder information

Annual General Meeting
Our Annual General Meeting ('AGM') will be held on 4 May 2023 at 10.00am.

The voting results for our 2023 AGM, including proxy votes and votes withheld will be available on our website at www.thephoenixgroup.com

Share price performance
Phoenix Group Holdings plc share price performance

Price pence per share (rebased to Phoenix)



Shareholder profile as at 31 December 2022

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	507	24.35	231,702	0.02
1,001–5,000	593	28.48	1,450,606	0.14
5,001–10,000	177	8.50	1,261,277	0.13
10,001–250,000	516	24.78	34,177,318	3.42
250,001–500,000	83	3.99	29,606,876	2.96
500,001 and above	206	9.90	933,624,698	93.33
Total	2,082		1,000,352,477	

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 should you have any 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.

Dividend reinvestment plan
The Company does not currently offer a dividend reinvestment plan.

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 – 2022 final dividend

Ex-dividend date	30 March 2023
Record date	31 March 2023
Payment date for the recommended final dividend	10 May 2023

Group financial calendar for 2023

Annual General Meeting	4 May 2023
Announcement of unaudited six months' Interim Results	September 2023*

*see website for announcement dates

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 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.

Glossary

ABI
The Association of British Insurers ('ABI') is a trade association made up of insurance companies in the United Kingdom.

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.

Adjusted operating profit
Adjusted operating profit is a non-GAAP measure that is considered a more representative measurement of performance than IFRS profit or loss after tax as it is based on expected long-term investment returns.

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 314.

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 ('AUA')
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.

Auto-enrolment
Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pensions scheme and contribute towards it. This is called auto-enrolment.

Bulk Purchase Annuities ('BPA')
A bulk annuity is an insurance policy that is purchased by pension scheme trustees to better secure members' benefits by removing investment, inflation and longevity risk associated with defined benefit pension schemes.

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.

Carbon footprint
A carbon footprint is the total greenhouse gas ('GHG') emissions caused by an individual, event, organization, service, place or product, expressed as carbon dioxide equivalent ('CO_2e').

Carbon offsets
A reduction or removal of emissions of carbon dioxide or other greenhouse gases made in order to compensate for emissions created elsewhere.

Carbon Disclosure Project ('CDP')
Global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

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.

Climate scenario
A plausible representation of future climate that has been constructed for explicit use in investigating the potential impacts of anthropogenic climate change.

Closed life fund
A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders.

Confederation of British Insurers ('CBI')
The CBI is a not-for-profit organisation that represents 190,000 businesses. It provides a voice for firms at a regional, national and international level to policymakers.

COP27
The 27th United Nations Climate Change Conference of the Parties held in Sharm el Sheikh (Egypt) in November 2022.

Customer
A customer could be a lead policyholder on more than one policy and some policies could have more than one customer, therefore the customer number is approximate. The number of customers is measured as number of lead policyholders.

Defined benefit pension scheme
A pension scheme that defines the benefits payable to members irrespective of any contributions paid or investment gains made.

Defined contribution pension scheme
A pension scheme where the benefits depend on the amount and frequency of contributions paid into the scheme, the investment gain on those contributions, and annuity rates at the time of retirement. The exact pension valuation will not be known until the point of retirement.

Department for Business & Trade
The Department for Business & Trade (formerly the Department for Business, Energy & Industrial Strategy ('BEIS')) is a ministerial department in the UK.

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.

Equity release mortgage ('ERM')
An equity release mortgage product enables a home owner aged over 55 to draw a lump sum or regular smaller sums from the value of the home, while remaining in their home.

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.

Financed emissions
Greenhouse gas emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol.

Financial Conduct Authority ('FCA')
The conduct regulator for around 50,000 financial services firms and financial markets in the UK and the prudential supervisor for 48,000 firms.

Financial leverage
The Fitch leverage ratio 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 excluding subordinated liabilities qualifying as Tier 1 Own Funds under Solvency II. Equity is defined as the sum of equity attributable to the owners of the parent, non-controlling interests, the unallocated surplus, subordinated liabilities qualifying as Tier 1 Own Funds under Solvency II and the Tier 1 Notes. Values for debt and equity are adjusted to allow for the impact of currency hedges in place over foreign currency denominated debt.

Financial Reporting Council ('FRC')
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.

FTE
The full-time equivalent ('FTE') is a measure that allows the Group to calculate the equivalent number of full-time employees for all types of employees.

FTSE Women Leaders review
An independent, business-led framework supported by the Government, which sets recommendations for Britain's largest companies to improve the representation of women on boards and in leadership positions. It continues the work of the Hampton-Alexander and Davies Reviews.

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. They include water vapour, carbon dioxide ('CO_2'), methane ('CH_4'), nitrous oxide ('N_2O'), hydro chlorofluorocarbons ('HCFCs'), ozone (O_3), hydrofluorocarbons ('HFCs'),and perfluorocarbons ('PFCs').

Greenhouse Gas Protocol
Global standard for companies and organisations to measure and manage their GHG emissions.

Group in-force Long-term Free Cash ('Group in-force LTFC')
Group in-force LTFC is the cash available to shareholders. It is defined as the estimated lifetime cash generation from our in-force business, plus Group cash held in the Holding Company, less outstanding shareholder debt, committed M&A and transition costs, and interest on debt until maturity. The calculation for the LTIP performance metric excludes any future shareholder dividends and is before interest on debt until maturity.

Guaranteed Annuity Rate
A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate.

HMRC
His Majesty's 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 Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Life Holdings Limited, ReAssure Group plc and ReAssure Midco Limited.

IASB
International Accounting Standards Board.

Glossary continued

IFRS
International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board.

Incremental new business 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 is stated on an undiscounted basis.

Incremental new business long-term cash generation (less strain) plus Own Funds impacting management actions
This AIP performance metric measures value creation with incremental new business long-term cash generation (less strain) representing the increase in the expected future operating companies' cash generation to arise as a result of new business transacted in a period. It is stated on an undiscounted basis. Own Funds impacting management actions reflect the value of actions which improve Solvency Own Funds.

In-force
Long-term business written before the period end and which has not terminated before the period end.

Inter-governmental 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.

Internal Model
The Internal Model is a risk measurement system developed by an insurer to analyse its overall risk position, to quantify risks and to determine the economic capital required to meet those risks. Internal models are a key feature of the Solvency II supervisory system and the Prudential Regulation Authority ('PRA') has authorised certain insurance companies, upon application, to calculate their solvency capital requirement using their own internal models as opposed to the prescribed standard formula.

Internal rate of return ('IRR')
IRR is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value of all cashflows equal to zero in a discounted cashflow analysis.

Life company
A subsidiary providing life and pension products.

Longer Lives Index
The Longer Lives Index is the first piece of research by Phoenix Insights, the Group's think-tank, and was launched in 2022. The research provides a rich picture of people's financial readiness for longer lives across the UK.

LTIP
Long-Term Incentive Plan – The part of an executive's remuneration designed to incentivise the creation of 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.

M&A Advisory Committee
An ad hoc advisory PGH plc Board committee which meets to consider proposed mergers and acquisitions, including due diligence activities undertaken by management .

Management actions
Management actions are used to define the financial impacts of programmes of activity instigated and undertaken by the Group to enhance shareholder outcomes. Such actions will be undertaken to either increase Shareholder Own Funds (and therefore increase future organic cash generation) or to reduce SCR (thereby accelerating expected cash generation). Examples of management action activities include investment into higher yielding asset types, optimisation of asset and liability matching positions, and cost reduction initiatives.

Master Trust
A master trust is a defined contribution workplace pension scheme that is established under a trust. A master trust seeks to provide a workplace pension that can be used by several non-associated employers, as opposed to traditional schemes that are set up to provide a workplace pension for a single employer. Master trusts are supervised and authorised by the Pensions Regulator.

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.

Net flows
Represents the difference between the inflows (premiums) and outflows (claims) and excludes market movements.

Net operating cash receipts
This LTIP performance metric represents cash generation after allowing for corporate expenses and pension contributions.

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
The portion of a life fund which is not a with-profit fund, where risks and rewards of the fund fall wholly to shareholders.

Open business
The Group's business segment where products are actively marketed to new and existing customers.

Open (pensions and savings) net flows
This AIP metric measures business growth and retention in the Pensions and Savings businesses. It reflects the movement in assets for the Pensions and Savings business during the period. It is the difference between the inflows (premiums) and outflows (claims) and excludes market movements.

Operating companies
Refers to the trading companies within the Phoenix Group.

Operating companies' cash generation
Represents the net cash remitted from the operating entities to the Group, supported by the free surplus above capital requirements in the life companies, which is generated through margins earned on different life and pension products and the release of capital requirements, and group tax relief.

Operations intensity metrics
Metrics based on Scopes 1 and 2 emissions within Phoenix Group's occupied premises.

Origo
An electronic pensions transfer system.

OTC
Over-the-Counter financial instruments are traded directly between two parties without a broker or exchange market.

Own funds
Under Solvency II, own funds refers to the regulatory capital available to cover capital requirements. 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.

Parker review and guidance
An independent review which considered how to improve the ethnic and cultural diversity of UK boards to better reflect their employee base and the communities they serve. The Parker guidance sets out objectives and timescales to encourage greater diversity, and provides practical tools to help business leaders to address the issue. This includes the objective that each FTSE 100 board have at least one director of colour by 2021.

Partial internal model
The model used to calculate the Group Solvency Capital Requirement pursuant to Solvency II. It aggregates outputs from the harmonised internal model and the standard formula 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.

Partnership for Carbon Accounting Financials ('PCAF')
PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas ('GHG') emissions associated with their loans and investments.

Persistency
This LTIP performance metric is set for the open business only and based on a principle of protecting value, with a target based on the best estimate assumption of persistency at the start of the performance period. This is measured on a product by product basis with the average value of each product then used to create a single weighted average persistency rate. Further details of persistency insurance risk are covered in section F4 of the consolidated financial statements.

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. Ark Life Assurance Company DAC was subsequently disposed of by the Group on 1 November 2021.

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.

Return on shareholder value
Shareholder value reflects the Group's Eligible Own Funds adjusted to remove amounts pertaining to unsupported with-profit funds, Group pension schemes, the value of Shareholder debt and adjusted to remove the short term impact economic movements in the performance period. The return on shareholder value reflects excess return above risk free. This is a LTIP performance metric for the 2020, 2021 and 2022 grants.

Science Based Targets
An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming below 2C from pre-industrial levels, under recommendations by the SBT Institute ('SBTi').

Glossary continued

Scope 1, 2 and 3 emissions
Greenhouse gas emissions are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions e.g. use of natural gas, company car vehicle emissions. Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating. Scope 3 includes 15 other categories of indirect emissions in a company's value chain e.g. business travel and investments.

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.

Shareholder value
The Group's Eligible Own Funds adjusted to remove amounts pertaining to unsupported with-profit funds, Group pension schemes, the value of shareholder debt and adjusted to remove the short term impact economic movements in the performance period. This is an AIP performance metric for the 2022 period.

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'.

SONIA
Sterling overnight interest average – The average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors, administered by the Bank of England.

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.

Stewardship Code
The Financial Reporting Council ('FRC') sets the UK Stewardship Code which sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

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.

Task Force on Climate-related financial disclosures ('TCFD')
The TCFD was created in 2015 by the Financial Stability Board ('FSB') to develop consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

Task Force on Nature-related financial disclosures ('TNFD')
The TNFD is a new global market-led initiative which aims to provide financial institution and corporates with a complete picture of their environmental risks and opportunities. The TNFD will deliver a framework for organisations to report and act on evolving nature-related risks, building on the success of the TCFD.

TCS BaNCS
TCS BaNCS is a state of the art Life and Pensions administration platform operated by Tata Consultancy Services ('TCS').

Tier 1 Notes
The £500 million fixed rate reset perpetual restricted Tier 1 write down Notes issued by Phoenix.

Transitional Measures on Technical Provisions ('TMTP')
The 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 principles 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.

The Pensions Regulator ('TPR')
A non-departmental public body which regulates work-based pension schemes in the United Kingdom.

Total Shareholder return ('TSR')
TSR is 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).

2018 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 published by the Financial Reporting Council.

UK Endorsement Board ('UKEB')
The UKEB was established following the UK's exit from the EU. The board's purpose is to endorse and adopt new and amended international accounting standards issued by the IASB for use by UK Companies and has responsibility for influencing the development of those standards.

Unit-linked policy
A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund.

Windfall gains
A windfall gain may arise if the Company has experienced a significant fall in its share price at the point of granting LTIP awards so the recipient receives significantly more shares than in previous years, and this is followed by a subsequent increase in share price at the point of vesting.

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 fund and any declared bonuses. Generally, policyholder and shareholder participations in the with-profit fund in the UK are split 90:10.

Women in Finance Charter
A charter setting out a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.

Online resources

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
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
thephoenixgroup.com/investor-relations →

News and updates
To stay up-to-date with Phoenix Group news and other changes to our site's content, you can sign up for e-mail alerts, which will notify you when content is added.

Go online
thephoenixgroup.com/site-services/e-mail-alerts.aspx →

Forward-looking statements

Forward-looking statements
The 2022 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 condition, 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, political, social, environmental and business conditions; asset prices;
- market-related risks such as fluctuations in investment yields, interest rates and exchange rates, the potential for a sustained low-interest rate or high-interest rate environment, and the performance of financial or credit markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis, the COVID-19 pandemic, climate change and the effect of the UK's version of the 'Solvency II' regulations on the Group's capital maintenance requirements;
- the medium and long-term political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union;
- the direct and indirect consequences for European and global macroeconomic conditions of the Russia-Ukraine War and related or other geopolitical conflicts;
- the impact of changing inflation rates (including high inflation) and/or deflation;
- information technology or data security breaches (including the Group being subject to cyberattacks);
- the development of standards and interpretations including evolving practices in ESG and climate reporting with regard to the interpretation and application of accounting;
- the limitation of climate scenario analysis and the models that analyse them;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- climate change and a transition to a low-carbon economy (including the risk that the Group may not achieve its targets);
- 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 proposed or future acquisitions, disposals 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 and implementing changes in IFRS 17 or any other regulatory, solvency and/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 2022 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 to place undue reliance on such forward-looking statements contained in this 2022 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2022 Annual Report and Accounts or any other forward-looking statements or data it may make or publish.

The 2022 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 2022 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

Caution about climate and ESG related disclosures
Climate and ESG disclosures in the 2022 Annual Report and Accounts use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate-related activities, than the Group's reporting of historical financial information. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, the Group's climate risk analysis and net zero transition planning will continue to evolve and the data underlying the Group's analysis and strategy remain subject to change over time. As a result, the Group expects that certain climate and ESG disclosures made in the 2022 Annual Report and Accounts are likely to be amended, updated, recalculated or restated in the future.

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