Phoenix

Helping people secure a life of possibilities

Phoenix Group Holdings plc
Annual Report and Accounts 2021

Phoenix Group are proud to be the UK's largest long-term savings and retirement business.

We are driven by our purpose of helping people secure a life of possibilities. By growing a strong, sustainable business we will help more people on their journey to and through retirement.

Our new brand look

Our new brand stems from our purpose of helping people secure a life of possibilities. Clear and open, it reflects our focus on the best outcomes for our customers and wider society.

Scan the code to view a video about our new brand look and feel →

Other reports

View our Sustainability Report 2021
thephoenixgroup.com/sustainability/sustainability-report →

View our Climate Report 2021
thephoenixgroup.com/sustainability/climate-report →

Performance

Key performance indicators

Operating companies' cash generation

£1,717m

(2020: £1,713m)

REM APM

Group Solvency II surplus (estimated)

£5.3bn

(2020: £5.3bn)

REM

Group Solvency II shareholder capital coverage ratio (estimated)

180%

(2020: 164%)

REM APM

Incremental new business long-term cash generation

£1,184m

(2020: £766m)

REM APM

Other performance indicators

Total ordinary dividend per share

48.9p

(2020: 47.5p)

IFRS operating profit

£1,230m

(2020: £1,199m)

APM

IFRS (loss)/profit after tax

£(709)m

2020: £834m

Fitch financial leverage ratio

28%

(2020: 28%)

REM APM

Assets under administration

£310bn

(2020: £307bn*)

APM

All amounts throughout the report marked with REM are KPIs linked to Executive remuneration. See Directors' remuneration report on page 106.

All amounts throughout the report marked with APM are alternative performance measures. Read more on page 320.

* Pro forma for the disposal of £29 billion of assets from the Wrap SIPP, TIP and Onshore Bond businesses sold to abrdn plc in 2021, as well as £2 billion of assets from Ark Life which was sold to Irish Life in 2021.

The Strategic report was approved by the Board of Directors on 12 March 2022 and signed on its behalf by

Andy Briggs
Group Chief Executive Officer

Contents

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

c.£310bn
total assets under administration

c.13m
customers

c.8,000
colleagues

FTSE 100
and FTSE All World

c.£6.5bn
market capitalisation as at 31 December 2021

£17.0bn
of estimated cash that will emerge from our current in-force business

Our key consumer brands

Open business brands

Standard Life
Part of Phoenix Group

SunLife
Part of Phoenix Group

Heritage business brands

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.

Find out more about our business model and how we generate cash on pages 14–17 →

Our business has two customer divisions...

Heritage

What we do
- Phoenix is the market leader in the safe and efficient management of Heritage in-force life and pensions policies to deliver better customer outcomes.
- Products include with-profits and unit-linked funds, and annuities.

How we do it
- We acquire Heritage books through our dedicated M&A function.
- We then migrate customers onto a more modern platform with enhanced digital capabilities to improve the customer experience.

Who are our customers
- Primarily individuals at or near retirement age who own legacy products that are no longer actively marketed to new customers.

What distinguishes us
- Market-leader in M&A integration with a scalable operating model that enables us to more efficiently manage legacy products.
- We are a highly trusted partner for M&A vendors.

Why do insurers sell their Heritage books?
The capital intensive nature of Heritage books combined with the increasing costs of administering old legacy product systems results in insurers looking to sell these books to specialists such as Phoenix.

How does Phoenix run them more efficiently?
Our cost-efficient operating model for customer administration utilises our outsourced customer platform to transform the traditional fixed cost of managing legacy portfolios in run-off into a best-in-market variable cost. We also leverage our scale to realise significant capital synergies.

We support
c.13m
customers in total

How we make an economic return

Open

What we do
- We offer and manage long-term savings and pensions products on behalf of our customers.
- Our primary products include Bulk Purchase Annuities (BPA), Workplace pensions and individual savings & retirement solutions.

How we do it
- We support people in their journey to and through retirement by providing solutions to their long-term savings and retirement needs.
- We provide the right guidance and products, at the right time, to support the right decisions.

Who are our customers
- Corporates looking to de-risk their balance sheets with a BPA.
- Employers looking for a trusted partner to manage their Workplace scheme.
- Individuals at different stages of the savings life cycle.

What distinguishes us
- We have a strong range of products and brands across the savings life cycle.
- Our Heritage business provides significant cost and capital synergies to the Open business and access to c.13m customers.

What are Bulk Purchase Annuities (BPA)?
Companies are increasingly de-risking their balance sheets by insuring their defined benefit pension scheme liabilities through BPAs in order to focus on their core businesses. Phoenix provides BPA risk removal products for trustees and sponsors of pension schemes.

What are Workplace schemes?
A Workplace pension scheme is a way of saving for retirement through contributions deducted directly from salaries and supplemented by employers. Phoenix manages these schemes on behalf of employers.

Investment case

How we generate shareholder value

Through our value creation model…

Organic growth

Open

- Acquire new customers through our multiple Open business channels primarily under the Standard Life brand

Grow in-force business

Cost and capital efficiencies, and access to c.13m customers

Reinvest surplus cash to grow our Open business

In-force business

Heritage

- Market leader in optimising in-force business for cash and resilience
- Generates surplus cash to reinvest into growth opportunities

Supports higher M&A synergies

Reinvest surplus cash to fund M&A

Grow in-force business

Inorganic growth

M&A & Integration

- Market leader in UK Heritage M&A
- Integrate onto Phoenix Group's platform to unlock cost and capital synergies

…we deliver on our financial framework…

Cash

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

Resilience

Our unique risk management framework delivers resilience to our Solvency II capital and certainty to cash generation

Growth

Growth from our Open business and through M&A will offset our Heritage business run-off

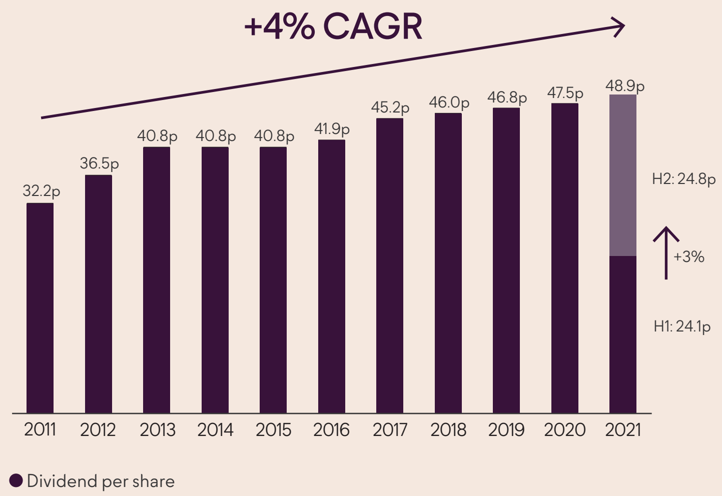
…which underpins our sustainable dividend approach

Dividend growth when the business grows organically

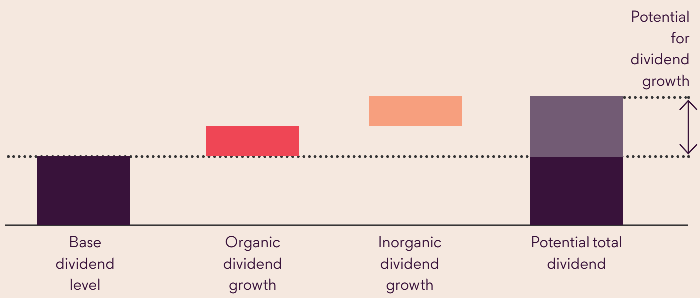
In-force business funds our current dividend over the long term

Dividend growth when the business grows inorganically

Strong dividend track record



Future dividend approach



Phoenix Group's dividend policy:

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

Embracing our purpose

> 2021 has seen Phoenix make significant strategic progress as we fully embraced our purpose of 'helping people secure a life of possibilities'."

Nicholas Lyons
Chairman

Scan the code to watch the video from our Chairman →

2021 has been another landmark year for Phoenix Group with our strong financial and operational performance enabling us to deliver on our ambition of 'proving the wedge'. This means that organic growth from our Open business has more than offset the run-off of our Heritage business for the first time. It is a pivotal moment for Phoenix as it transforms us from a business that was in long-term run-off to a business that is now growing and sustainable.

Importantly, the investment we are making into our business is directly benefiting all of our stakeholders, including our customers, colleagues, investors and wider society. We are delivering our vision of growing a strong and sustainable business that helps more people on their journey to and through retirement.

Our purpose drives our actions

As the UK's largest long-term savings and retirement business we can make a significant difference to society and we are committed to making change happen today to support people in having better financial futures. We therefore have three core pillars that underpin our comprehensive sustainability strategy which is aligned to our purpose.

Our first pillar is 'investing in a sustainable future', where we will use our scale to drive real change and invest in the things that help to build a more sustainable world. We are responsible for looking after c.£310 billion of customer and shareholder assets, which requires us to keep their money safe and provide them with strong long-term financial returns. We will do this by integrating sustainability into every investment decision we make, through investing responsibly, by tracking our performance to deliver our ambitious decarbonisation goals and through engaging to drive wider system change.

Our second pillar is 'engaging people in better financial futures', which is about providing our customers with the right guidance and products, at the right time, to support the right decisions. We will do this through delivering fund and product innovation to develop sustainable retirement income solutions that help close the pension savings gap and by empowering our customers to plan their financial futures. We also want to drive a national conversation about the implications of longer lives, through our new think tank, Phoenix Insights. While Phoenix Group will continue to advocate for change, using our scale and influence.

Our third pillar is 'building a leading responsible business'. We will do this by continuing to invest in our people and culture, working responsibly with our supply chain, supporting our communities and reducing the environmental impact of our own operations.

Against each pillar we have set clear targets, including our ambitious 2025 and 2030 interim decarbonisation targets for our investment portfolio, as part of our roadmap to net zero by 2050. We also have a commitment for being net zero across our own operations by 2025. You can find out more about our strategy and targets in our 2021 Sustainability Report.

Inaugural organic dividend increase

As a result of the Group's strong financial performance in 2021, I am delighted to announce that the Board is recommending Phoenix Group's inaugural organic dividend increase. The Board had previously set two clear conditions for considering an organic dividend increase, both of which have been met in 2021. The Board has therefore determined that a 3% increase in the Group's 2021 Final dividend to 24.8 pence per share is appropriate, meaning the Group's total dividend for 2021 will be 48.9 pence per share. Importantly, the Board has always been clear that any organic dividend increase must maintain our existing long-term dividend sustainability, which the growth in our business in 2021 has ensured.

Going forward, we now expect the business to continue growing organically and we also remain committed to M&A, where we see significant opportunities in the marketplace. As a result, the Board has evolved the Group's dividend policy to reflect that it now has two potential drivers of future dividend increases; organic and inorganic growth. However, the Board will, as ever, continue to prioritise the Group's long-term dividend sustainability, which is why our dividend policy is to pay a dividend that is sustainable and grows over time.

Board changes

We recently announced a series of Board changes that will take effect this year, which are a result of my having received the great honour of being elected as the next Lord Mayor of the City of London. It is due to the support I have received from the Board, our major shareholders and our regulators that I will be able to commence this role in November 2022. However, in order to assume this full-time position, I will need to take a 14-month sabbatical from my role as Phoenix Group Chairman, commencing 1 September 2022. As a result, the Board has decided that, subject to regulatory approval, our current Senior Independent Director, Alastair Barbour, will assume the role of interim Chairman during my sabbatical. Alastair will in turn step down as Chair of the Board Audit Committee in September and given that he will have served for 10 years by 2023, he will then leave the Board upon my return in November 2023. In his place, Karen Green has been chosen, subject to regulatory approval, to become our new Senior Independent Director.

I am also delighted to welcome Katie Murray to Phoenix Group, who is joining the Board as an independent Non-Executive Director in April 2022. Katie is currently Group Chief Financial Officer of the NatWest Group and brings a wealth of relevant experience to the Group.

Finally, I would like to thank Christopher Minter from Swiss Re for his insightful counsel while on the Board. Christopher left the Board in 2021 following Swiss Re's initial disposal of shares which reduced their stake below the 10% threshold that entitled them to a Board seat.

Outlook

As we enter 2022, the Board and I believe that Phoenix is well-positioned to execute our ambitious strategy at pace and to continue embracing our purpose.

Thank you

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

Nicholas Lyons
Chairman

Sustainability: The power of pensions – accelerating action towards net zero

The overall pension savings pot in the UK is estimated at £2.6 trillion. This means that people's pensions have the power to shape the future we all want to retire into by investing their long-term savings sustainably. Our pensions can drive real change if we collaborate and work together.

As the UK's largest asset owner, we recognise that we are in a unique position to foster this collaboration and in the run up to COP26 we convened our partners from across the financial ecosystem to explore how we can work together to accelerate action towards net zero. Our virtual event brought together key figures from across the industry and focused on the tangible actions our industry and government can take. These include reform of Solvency II regulations that would enable the billions of pounds of investment required for the transition to a low carbon economy to flow at scale.

Scan the code to watch the video →

Phoenix is a growing, sustainable business

2021 was a pivotal year for Phoenix as we demonstrated that we are a growing, sustainable business with our Open business delivering organic growth that more than offsets the Heritage run-off for the first time."

Andy Briggs
Group Chief Executive Officer

Scan the code to watch the video from our CEO →

I am delighted with our performance in 2021, which has seen us deliver record financial results and make significant progress against our strategic objectives, as we continued to embrace our purpose.

I passionately believe that the best businesses have a core social purpose, and at Phoenix ours is 'helping people secure a life of possibilities'. As a purpose-led organisation we are committed to delivering better outcomes for all of our stakeholders, including our customers, colleagues, investors and wider society.

A pivotal year for Phoenix

2021 marked a pivotal moment in Phoenix Group's evolution as our Open business delivered annual organic growth that, for the first time, will more than offset the natural run-off of our Heritage book. This is what we refer to as proving 'the wedge' and it means that Phoenix has now demonstrated that it is a growing, sustainable business.

This has been enabled by the strong momentum we have built in our Open business, driven by the investment we have made into developing our capabilities and through leveraging the Standard Life brand that we acquired earlier this year.

We operate a clear financial framework that delivers Cash, Resilience and Growth. During 2021 we delivered record cash generation of £1,717 million, exceeding our 2021 target range of £1.5-to-£1.6 billion. We maintained our resilient Solvency II ('SII') capital position with a SII Surplus of £5.3 billion (2020: £5.3 billion) and increased our Shareholder Capital Coverage Ratio ('SCCR') to 180% (2020: 164%). Our Open business has also delivered record new business long-term cash generation of £1,184 million, an increase of 55% from 2020 (£766 million). This strong financial performance means that we have once again exceeded our public financial targets.

As a result, I am delighted that the Board is recommending Phoenix Group's inaugural organic dividend increase of 3%. Importantly, the Board has always been clear that an organic dividend increase would only be implemented if the increased level of dividend remained every bit as sustainable over the long term as it previously was. Owing to the growth in our business, that is the case in 2021.

Phoenix is unique for the dependable cash and resilience our operating model delivers. As a result, we can be confident that our in-force business can pay our current, increased dividend over the very long term. And growth, whether through the investment in our Open business or through further M&A, has the ability to increase this dividend further over time, whilst fully maintaining its sustainability.

Market trends offer growth opportunities

As the UK's largest long-term savings and retirement business, it is critical that we understand the major drivers of change in the market. There are four key drivers, as outlined overleaf which offer Phoenix Group significant growth opportunities.

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

Insurers are disposing of their Heritage books through M&A

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

Trend Accelerating

Phoenix response

As the market leader in Heritage M&A we have the capability and scale to integrate businesses onto our platform to unlock significant cost and capital synergies to create shareholder value. We have a strong track record of delivery and are trusted by vendors.

c.£480bn

Estimated Heritage M&A opportunity in the UK market

Corporates are de-risking 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 with >£2 trillion of liabilities uninsured.

Trend Accelerating

Phoenix response

We are now an established player in the BPA market reflecting the investment we are making to build a comprehensive market proposition. This is enabled by the strong asset management and wider supporting capabilities we are also building.

£40bn

Estimated future market flows per annum

Auto-enrolment is driving strong Workplace growth

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.

Trend Accelerating

Phoenix response

We are a significant player in the Workplace market with a c.13% market share. 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.

£40bn

Estimated future market flows per annum

Responsibility for retirement planning is shifting to individuals

Responsibility for retirement planning has shifted to the individual in the age of pensions freedoms and defined contribution schemes, resulting in people seeking guidance on their journey to and through retirement.

Trend Accelerating

Phoenix response

By engaging our c.13 million customers to better understand their savings needs we have the opportunity to encourage customers to consolidate their pension pots with Phoenix and to decumulate with us through their retirement.

£40bn

Estimated future market flows per annum

Delivering our strategy

We have a clear strategy, as outlined on pages 6–7. Our Heritage business is the bedrock of the Group. It delivers high levels of predictable cash that both funds our dividend over the long term and generates surplus cash to reinvest into organic Open business growth and inorganic M&A. We are already the market-leaders in Heritage and M&A, which create significant shareholder value, while the investment we are making into our Open division is building market-leading businesses here too. At Phoenix, the whole really is greater than the sum of the parts. This is because our Heritage business provides our Open business with significant cost and capital efficiencies as well as access to c.13 million customers, and simultaneously it also supports us in delivering higher synergies from M&A.

If our strategy is the what, then our strategic priorities are the how. These are the key programmes and initiatives that will differentiate us, building distinctive capabilities to win in our chosen markets, and support us in delivering on our strategy and our purpose. We have five strategic priorities as outlined below.

Optimise our in-force business

Phoenix is the market leader in managing in-force business for cash and resilience, which in turn underpins our sustainable dividend. It is the in-force business that delivered our record cash generation and ongoing resilience during 2021.

A key driver of this is our expertise in optimising for cost and capital efficiencies, the output of which we call 'management actions'. During 2021 we delivered total management actions of £1.5 billion for the year. This included the UK's first approved internal model harmonisation of two legacy models which delivered in-year capital benefits of c.£550 million and unlocks a pipeline of further value-accretive management actions as well as supporting future M&A.

Another aspect of optimising our in-force business is to continually assess whether our portfolio of assets is maximising value for shareholders. We therefore undertook a strategic review of our European operations in 2021, in response to unsolicited expressions of interest. This culminated with the sale of Ark Life, an Irish closed-book business acquired as part of ReAssure, for £198 million, which completed in November 2021.
This transaction accelerated the cash release from the business and allows us to reinvest the capital into higher return growth opportunities.

We have also made significant progress in building a strong asset management function which supports us in enhancing our capital efficiency. We do this through the proactive management of our c.£40 billion shareholder credit portfolio including the origination of more capital efficient illiquid assets to back our illiquid liabilities, with £3 billion originated in 2021.

Meanwhile, we continue to operate our unique dynamic hedging approach which protects our SII balance sheet by hedging the majority of our market risks.

Enhance our operating model and culture

Phoenix is the market-leader in delivering M&A integrations and customer migrations that realise substantial cost and capital synergies. During 2021 we have, once again, demonstrated how good we are at realising cost and capital synergies from our integrations.

We have delivered £590 million of further synergies from Standard Life in the year, meaning we have now realised over £1.6 billion of synergies, which is £400 million more than the revised target we set post-acquisition. While on ReAssure, we have delivered £234 million of synergies in 2021, which is a total of £930 million to date, in just 18 months, against a revised target of just over £1 billion. With £2.5 billion of total synergies delivered to date, this demonstrates the significant value we create through M&A.

This is underpinned by our unique capability of delivering multiple integrations concurrently, as we delivered both the migration of 170,000 Old Mutual Wealth customers onto our ALPHA platform, and the ongoing migration of Phoenix customers from Capita to TCS, to realise synergies and improve the customer experience.

A crucial component for delivering on our purpose and strategy is attracting and retaining the best talent. That is why we are committed to making Phoenix the best place our colleagues have ever worked, by creating a workforce that is reflective of our community and which enables colleagues to bring their whole self to work. We therefore introduced a refreshed people and culture strategy in 2021 and strengthened our teams through the hiring of market-leading talent. Achieving cultural cohesion and inclusiveness is even more critical as we navigate our new ways of working. For this reason we made a significant investment into the latest technology to enhance collaboration and inclusion in the hybrid workplace.

It is therefore great to see our efforts reflected in a further increase in our employee engagement, with our average score currently 7.5 of 10, meeting our target for the year. I am also pleased that our focus on increasing female representation is beginning to develop momentum, with the number of females in our Top 100 leadership positions increasing from 21 to 31.

Grow our business to support both new and existing customers

We delivered record new business long-term cash generation of £1,184 million in 2021, a 55% increase on 2020. This reflects the significant investment we have made into our Open business and asset management capabilities, as well as the acquisition of the Standard Life brand which the majority of our Open business now operates under.

Our Retirement Solutions business was the largest contributor in 2021 with £950 million of new business long-term cash generation, having contracted £5.6 billion of BPA premiums in the year. This was more than double the £2.5 billion of premiums in 2020. Importantly, we have also reduced our capital strain from 9% in 2020 to 6.5% in 2021, primarily due to the benefits of our internal model harmonisation as well as the strong illiquid asset origination overseen by our asset

Phoenix Insights

Phoenix Insights is a new think tank set up to transform the way society responds to the possibilities of longer lives. We will use research to lead fresh debate, prompt a national conversation, and inspire the action needed to make better longer lives a reality for all of us. The core of our work will look at financial security, employment and learning and skills, but we will also look at health and care, and homes and communities. Reimagining longer lives means making changes in all these areas. Having been established in 2021, during 2022 we will publish our initial research findings and begin our work to advocate for change.

Scan the code to watch the video →

management function. The Standard Life brand has already begun to deliver benefits in the BPA business where the brand is resonating strongly amongst pension trustees and their advisers, thus opening up more opportunities for us.

Meanwhile, the multi-year investment we are making into our Workplace pensions proposition is beginning to deliver momentum, as we look to balance our growth from BPA over time. We were delighted to win 41 new schemes during the year. While these new schemes are small in terms of assets, it is an important milestone, with advisers giving us the opportunity to prove ourselves on these smaller schemes before we hopefully begin winning the larger schemes in time. In addition, positive net flows of £0.6 billion during the year provide a good platform to build on. This success has been supported by our investment and commitment to the Standard Life brand, as we reignite its reputation amongst employee benefit consultants and advisers.

It is also pleasing to see that the investment in our propositions and customer service platforms is reflected in our continued high customer satisfaction scores, which once again exceeded our targets. We delivered a Combined Group telephony customer satisfaction score of 92% (target: 90%) and a Standard Life digital journeys satisfaction score of 95% (target: 92%).

Innovate to provide our customers with better financial futures

Engaging and supporting people in improving their financial futures is crucial to fulfilling our purpose of 'helping people secure a life of possibilities'. The UK faces a significant retirement savings gap which we are committed to helping close by engaging with our customers. We want to provide people with the right guidance and products, at the right time, to support the right decisions.

We are investing into fund and product innovation to develop flexible retirement solutions and sustainable fund choices. Key successes in 2021 include transitioning our Workplace Master Trust to a sustainable default fund and the launch of our new range of innovative Lifetime Mortgage products through Standard Life. We are also developing our digital capabilities to deliver broader engagement options, with a 16% increase in customer log-ins across our Standard Life digital platforms in 2021 and the launch of our Homebuyer Hub and Money Mindset pilots. This was also underpinned by new initiatives to enhance digital literacy skills and better support vulnerable customers.

The UK's ageing society does present significant long-term challenges for people in being able to realise the potential of their longer lives, which is why we established a new think-tank, Phoenix Insights, in 2021. More details on this can be found in the spotlight box on page 12.

Invest in a sustainable future

As the UK's largest long-term savings and retirement business we are responsible for managing c.£310 billion of assets on behalf of our c.13 million customers. Our customers and shareholders trust us to reflect their priorities in how we invest. That means keeping their money safe and providing them with strong long-term financial returns, while using our scale to play our part in delivering a sustainable future.

That is why we are integrating sustainability across our business. This requires us to collaborate closely with our asset management partners to fully integrate ESG across our third-party managed assets and we are embedding best-in-class data analytics and capabilities to support this.

We also need to invest responsibly and are doing this in three ways. Firstly, we are designing decarbonising portfolios that deliver reduced carbon emissions, but maintain the broad risk and return profile. We must then use our position of influence to bring about corporate change through active stewardship. And we also need to evolve our investment decisions to increase the sustainable assets held within both our shareholder and policyholder funds.

We have made great progress on this journey in 2021 by putting in place the core foundations to deliver on our ambitions. A great example of this is the £1.3 billion of investment we allocated to sustainable assets in 2021, which represents 67% of our illiquid asset origination (excluding ERM). This included £542 million of investment into affordable housing, £364 million into healthcare and education, and £220 million into projects with positive environmental impacts.

In 2020 we committed to being net zero carbon across our investment portfolio by 2050 and during 2021 we set ambitious new interim investment portfolio decarbonisation targets too. This includes our target for a 25% reduction by 2025 in the carbon emission intensity of our c.£160 billion of listed equity and credit assets where we exercise control and influence, as well as a >50% reduction in the carbon emission intensity of the c.£250 billion of assets directly within our control by 2030.

We are also committed to being net zero in our own operations by 2025, which we remain on track to achieve, with strong progress made in 2021 through a 34% year-on-year reduction in premises emissions per FTE intensity.

Outlook

Phoenix has a clear and differentiated strategy, which creates shareholder value through leveraging the major market trends, and where the whole is greater than the sum of the parts.

Heritage is the bedrock of our business, which delivers high levels of predictable cash, that covers our current dividend into the long term. And it also generates surplus cash, that we can re-invest into both our Open business, and into M&A, to support future dividend increases.

We continue to see M&A as a key priority and are ready to consider transactions today. We estimate the UK Heritage market is c.£480 billion with a small number of large portfolios, as well as a larger number of small-to-mid size portfolios that we could acquire for cash. We are the market-leader in Heritage M&A and a trusted partner for vendors, which gives us great confidence in the outlook for M&A.

Thank you

Phoenix Group's strong 2021 performance could not have been achieved without our exceptional people and I would therefore like to thank my colleagues throughout the Group for their hard work in 2021.

Andy Briggs
Group Chief Executive Officer

> "2022 is going to be an exciting year as we execute on our strategic priorities in support of our purpose and to deliver our financial framework of Cash, Resilience and Growth."

Andy Briggs
Group Chief Executive Officer

Building a growing, sustainable business

We leverage our key inputs…

Financial
- We allocate our capital in a disciplined way to deliver strong returns from both our in-force business and new growth opportunities

Human
- Our experienced colleagues are experts in managing our in-force business and integrations and we are building a strong new business capability as well

Reputational
- We are the market-leader in Heritage and M&A with our strong track record making us a trusted counterparty for vendors, regulators & suppliers

Relationships
- Our brands are trusted by our customers and utilise a range of partners to deliver better customer outcomes and an efficient operating model

Responsibilities
- We have a duty to operate within the insurance industry's regulatory and capital frameworks, as well as contributing to wider society

…through our differentiated operating model…

Dividends and interest

Invest in growth

Group
The Group function manages corporate and strategic activity including M&A. Cash remitted to the Group is used to pay interest and dividends, with surplus cash reinvested into growth.

Cash generation is remitted to Group

Cash generation is remitted to Group

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

Heritage
Earns margins on legacy life & pensions products and releases capital over time

Open
Earns margins on new business life & pensions products and releases capital over time

In-house services	Outsourced services
Asset management team oversees investment portfolio	Asset management services for our investment portfolio
Customer service through our ALPHA platform	Customer service through TCS Diligenta / BaNCS
Capital management and risk management	

See following pages 16–17 to find out how we generate cash →

...in line with our strategic priorities...

Read more pages 18–27 →

Optimise our in-force business

Enhance our operating model and culture

Grow our business to support both new and existing customers

Innovate to provide our customers with better financial futures

Invest in a sustainable future

...to deliver our financial framework...

Read more pages 28–41 →

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

Resilience
Our unique risk management framework delivers resilience to our Solvency II capital and certainty to cash generation

Growth
Growth from our Open business and through M&A will offset our Heritage business run-off

...and better outcomes for our all of our stakeholders...

Read more pages 42–45 →

Customers
92%+
customer satisfaction scores exceeded our targets in 2021

Investors
48.9p
2021 total dividend per share (inclusive of 3% increase in final)

Colleagues
7.5 out of 10
average colleague engagement score for 2021

Community
2,650hrs
volunteered by our colleagues to support local communities

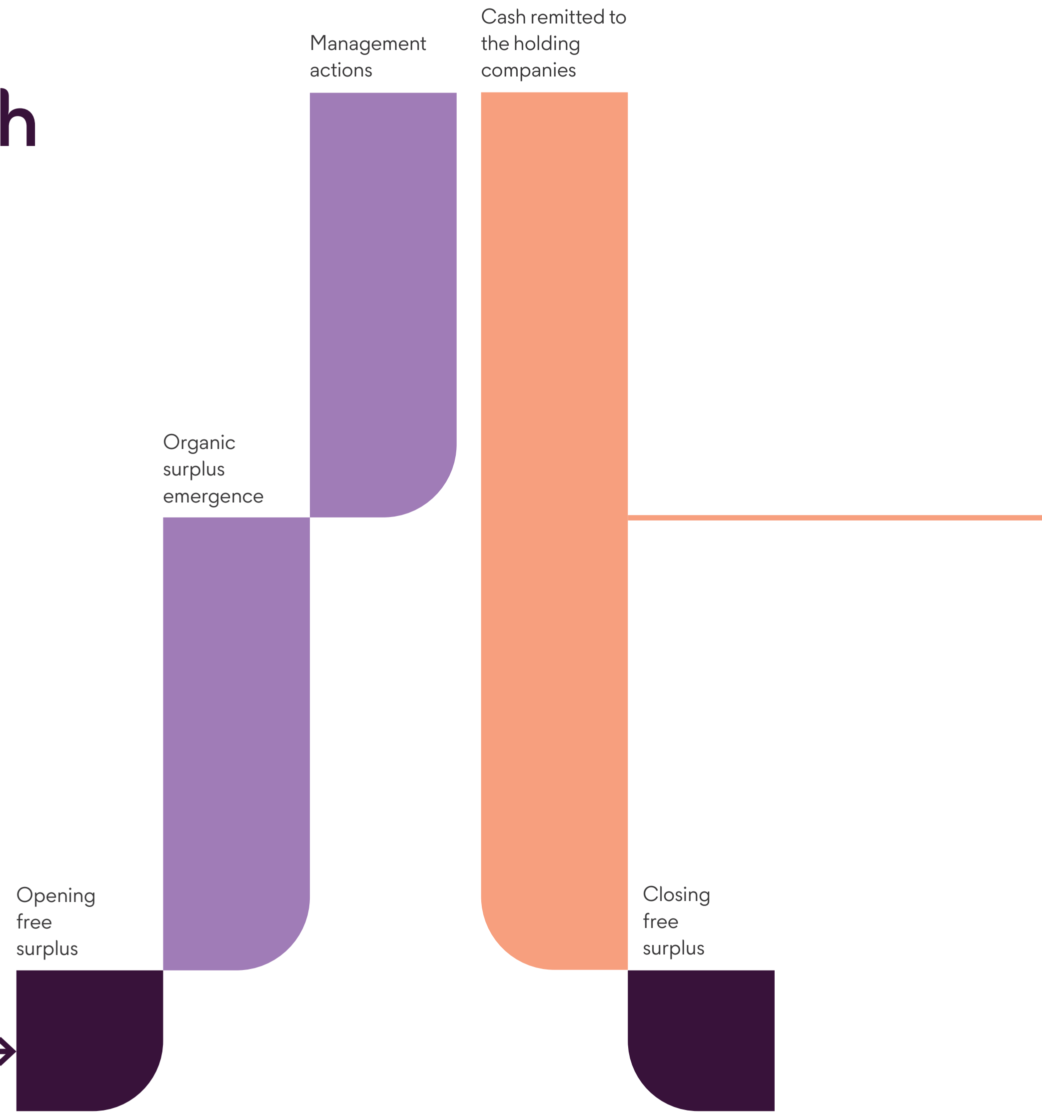
Society
Net zero
carbon commitment by 2050

...in support of our purpose of:

Helping people secure a life of possibilities

How we generate cash

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



Cash generation within our Life Companies

Opening free surplus

What is the opening free surplus?

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

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

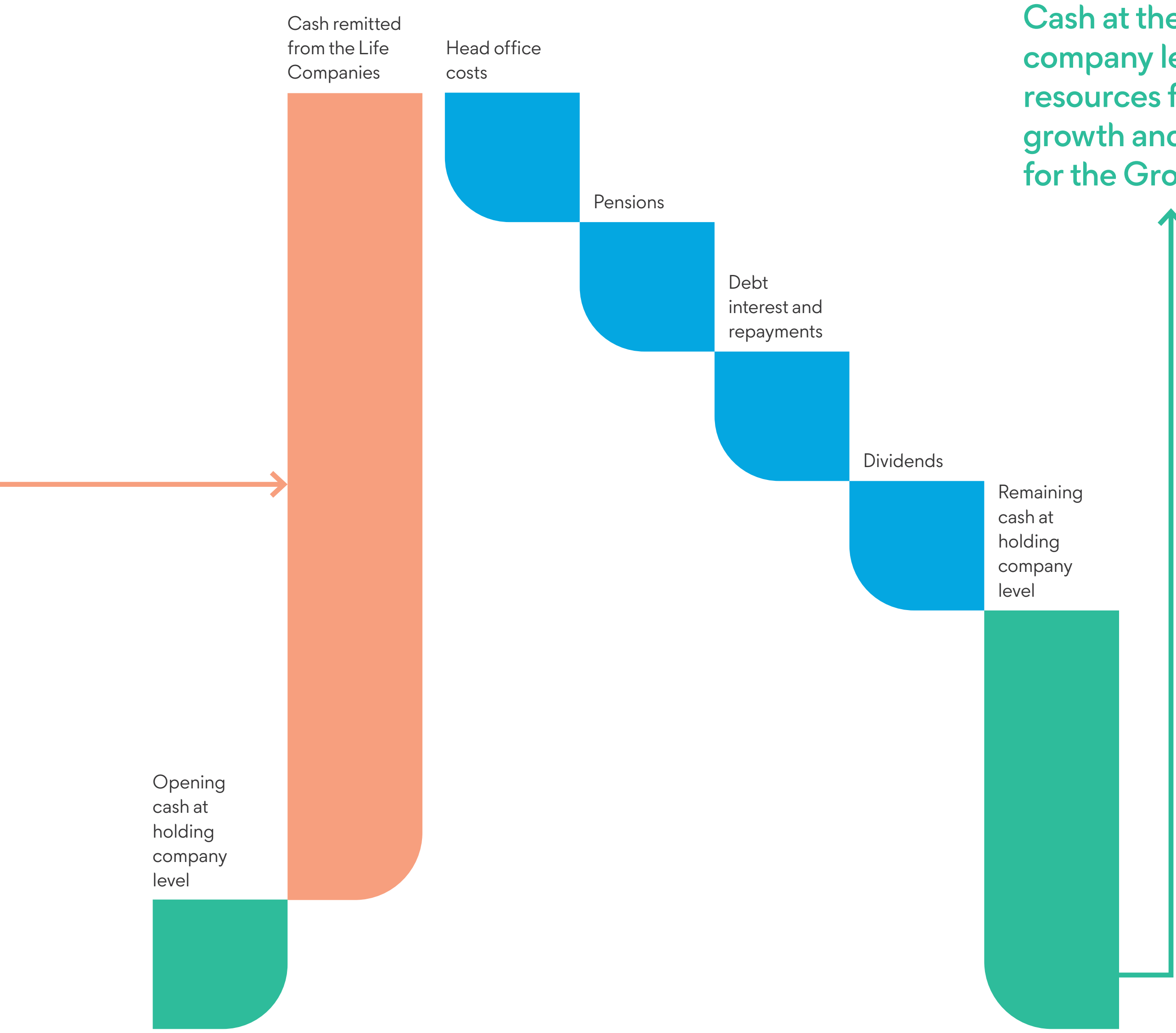
Less Capital Management Policy
The Life Companies hold internal capital buffers above the regulatory capital requirement for prudence.

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

Cash utilisation at holding company level

Uses of holding company cash generation

What is the cash remitted from the life companies used for?

Head office costs
Including salaries and other administration costs.

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

Debt interest and repayments
On outstanding Group shareholder debt.

Dividends
The Group 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?

Mergers and acquisitions (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
Generate increased cash flows over the longer term and are value accretive.

Investment in asset-based organic growth
Investment into our Workplace and CS&I propositions will further develop our capabilities and support us in growing our Open business assets over time.

Optimise our in-force business

Phoenix Group is the market leader in managing in-force business for cash and resilience, which in turn underpins our sustainable dividend over the long term.

The majority of the Group's cash generation stems from the run-off of 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 unique 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.

Record cash generation in 2021

Phoenix delivered record cash generation in 2021 of £1,717m (2020: £1,713m), which exceeded the Group's 2021 target range of £1.5bn to £1.6bn. This reflects our continued focus on optimising our in-force business to deliver dependable cash. Cash generation in 2021 included c.£0.8bn of management actions that have been distributed as cash during the year. This included c.£0.4bn of synergies realised from the Standard Life and ReAssure acquisitions, which are expected to be lower going forward as those integration programmes complete.

Resilient balance sheet maintained

The Group's Solvency II surplus of £5.3bn remained strong during the year (2020: £5.3bn). This largely reflects the proactive investment we have made into growth opportunities this year which was largely funded by our over-delivery of management actions. Our Solvency II Shareholder Capital Coverage Ratio ('SCCR') of 180% increased 16 percentage points in the year (2020: 164%) primarily due to the overdelivery of management actions and remains comfortably within our target range of 140% to 180%. Our ongoing resilience reflects the unique dynamic hedging approach we employ, which means we are comparatively more resilient to market stresses than the majority of our peers.

We also maintained our Fitch leverage ratio at 28%, which is within our target range of 25% to 30%, as we continue to optimise our capital structure.

Enhancing our capital efficiency

We enhance cash generation from our in-force business by delivering value-accretive management actions. In 2021, we delivered total management actions of £1.5bn, which included c.£550m of capital synergies from the harmonisation of the legacy Phoenix Life and Standard Life internal models, the first of its kind undertaken in the UK. The harmonisation creates a single, more efficient model that will further strengthen the Group's risk and capital management capabilities, and offers a host of future benefits for ongoing optimisation and M&A synergies. Other management actions in the year included c.£300m of capital benefits from our illiquid asset origination and c.£100m from our ongoing asset risk management.

Value accretive portfolio optimisation

In November, we completed the sale of Ark Life, the Irish closed-book Heritage business acquired as part of ReAssure, for £198m. This followed a strategic review of our European operations in response to expressions of interest in late 2020. We concluded from this that we should dispose of Ark Life, but retain our Standard Life International business and implement a range of management actions to deliver a more efficient platform that provides longer-term strategic optionality. The sale of Ark Life enabled us to accelerate the cash release from this business and the capital will be reinvested into higher return growth opportunities.

Investment in asset management

We also made significant progress in building a best-in-class asset management function with further key hires and infrastructure build in 2021. This supported us in originating £3bn of new illiquid assets, which are used to back our illiquid liabilities, an increase of 48% on 2020. These assets were originated at an attractive c.70bps illiquidity premium, demonstrating our strong capability here.

Priorities for 2022

In 2022, we will maintain our focus on optimising our in-force business for cash and resilience, with clear targets as outlined overleaf in the KPIs.

Other strategic focus areas include continuing to deliver a range of management actions as we realise further cost and capital synergies.

We will also further enhance our asset management capability to enable us to continue originating illiquid assets to back our growing annuity business and further diversify our credit portfolio geographically through an increased proportion of US credit assets.

How we measure delivery

Cash generation

£1,717m

2021 target: £1.5bn to £1.6bn

Definition
Cash generation represents cash remitted by the Group's operating companies to the Group holding company in the current period. Cash remitted 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 any surplus cash available for reinvestment into growth opportunities.

Future target
One-year 2022 cash generation of £1.3bn to £1.4bn.

Three-year 2022–2024 cash generation of £4.0bn.

Links
REM APM

Solvency II surplus

£5.3bn

2021 target: no target

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 our SCCR target range.

Links
REM

Solvency II Shareholder Capital Coverage Ratio (SCCR)

180%

2021 target: 140 to 180%

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.

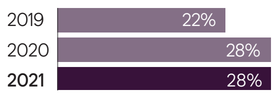
Future target
Maintain a SCCR within our target range of 140% to 180%.

Links
REM APM

Fitch leverage ratio

28%

2021 target: 25 to 30%



Definition
Calculated by Phoenix using Fitch Ratings' stated methodology, being debt as a percentage of the sum of debt and equity.

Why it matters?
The Fitch leverage ratio is a measure of the Group's debt gearing level. Our target ratio range is a key input into the Group's Fitch investment grade rating.

Future target
Maintain a Fitch leverage ratio within our target range of 25% to 30%.

Links
REM APM

1 Pro forma for acquisition of ReAssure

Enhance our operating model and culture

Enhancing our operating model and culture is a key enabler for delivering our purpose and strategy, as it requires the best people and an efficient operating model to truly deliver on our ambitions.

Phoenix Group is the market-leader in Heritage M&A integration, with the significant progress made on both the Standard Life and ReAssure acquisitions in 2021 further evidence of this.

Continued M&A integration progress

Phase 2 of the Standard Life integration comprising Finance and Actuarial is now complete, with £590m of synergies delivered in 2021, primarily due to the Group's internal model harmonisation. Having now delivered £1,632m of synergies from the Standard Life integration, 134% of our revised target, we have now concluded our synergy tracking for external reporting.

We have also submitted the partial internal model application for our Standard Life International DAC business as we seek to enhance its capital efficiency.

On the ReAssure integration, we completed the Phase 1 group function integrations in 2021 and have now commenced the Phase 2 integration. This activity generated £234m of synergies in the year, taking the total synergies delivered to date to £930m in just 18 months, against our target for £1,050m.

Experts in delivering multiple integrations concurrently

We also continued to progress with our Phase 3 customer migration programmes, with two key migrations in the year that demonstrated our expertise in delivering multiple integrations concurrently.

This included the migration of c.170,000 Old Mutual Wealth customers onto our in-house ALPHA platform. In parallel, the ongoing migration of our Phoenix Capita customers to the outsourced TCS platform has seen us, to date, migrate c.1.1 million customers onto the Diligenta customer service platform..

Both migrations will enhance the customer experience through access to new digital channels and improved customer journeys.

Standard Life heritage policy migration re-phased to support future growth

We have also taken the strategic decision to re-phase our Standard Life customer and IT migration programme, as we look to accelerate our future Workplace growth.

TCS are now developing new capabilities for us that will significantly enhance our Workplace proposition, and as a consequence, we are deferring some of the legacy pension and savings migrations, all of which we now expect to complete by 2025. This will enable us to accelerate the new business capabilities onto TCS BaNCS and drive our future Workplace growth.

Aspiring to be the best place our colleagues have ever worked

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 2021, we therefore introduced a refreshed people strategy structured around evolving our culture, building talent and capabilities, and driving organisational effectiveness. Our focus in 2021 centred on talent and capabilities, diversity and inclusion, mental health and wellbeing, and employee engagement, underpinned by our ways of working.

During 2021, we have invested in our people capabilities by strengthening our teams with the hiring of top talent from the external market and further developing our strong existing talent. We have also invested in the latest remote working technology and software to support a collaborative and inclusive hybrid working model that is fit for the long term.

Another key success has been our Group-wide 'Who We Are' survey, which provided us with a clear understanding of our colleague demographic and will support us in better targeting our diversity and inclusion initiatives. This has also enabled us to set clear targets for female and ethnic minorities representation.

The progress we are making is reflected in our increased employee engagement in 2021, with our average score currently at 7.5 out of 10, meeting our target for the year.

Priorities for 2022

In 2022, we are focused on completing the Phase 2 ReAssure integration, making further progress on our various regulatory applications, delivering the TCS BaNCS enhancements and completing our ongoing migrations.

We will also continue to invest in our employer brand, further develop our people and build a more diverse and inclusive workplace.

How we measure delivery

Total Standard Life integration synergies

£1,632m

Total target: £1,220m
(134% delivered to date)

Definition
The total cost and capital integration synergies realised from the acquisition of Standard Life which completed in 2018.

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 had a target of £1,220m which we have exceeded with £1,632m to date and given the time elapsed and significant overdelivery we will no longer report these synergies in future.

Links
REM APM

Total ReAssure integration synergies

£930m

Total target: £1,050m
(89% delivered to date)

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 £1,050m from the ReAssure acquisition, with 89% of this target already delivered to date.

Links
REM APM

Colleague engagement (average)

7.5 out of 10

2021 target: 7.5 out of 10

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
We have a target to increase our average colleague engagement score to 7.8 out of 10 in 2022.

Links
REM APM

Females in leadership roles

38%

Ethnic minorities representation

9%

Definition
The proportion of females represented in leadership roles.

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

Increase our ethnic minorities representation to 11% by the end of 2023, and 13% by the end of 2025.

Links
REM APM

Grow our business to support both new and existing customers

We are investing into our business to better support both our new and existing customers with solutions that will help them on their journey to and through retirement, as we leverage the major market trends that offer Phoenix Group significant growth opportunities.

Record new business growth in 2021

Our Open business delivered record new business long-term cash generation ('LTCG') of £1,184m in 2021, a 55% increase on 2020 (£766m). This strong performance means the Group has now proven 'the wedge' with new business LTCG more than offsetting the run-off of our Heritage book (c.£800m). This demonstrates that Phoenix is a growing, sustainable business.

Retirement Solutions was the largest contributor with £950m of new business LTCG in 2021, representing an 82% increase year-on-year (2020: £522m). This reflects £5.6bn of BPA premiums written in the year which included two external transactions with values in excess of £1.5bn, which establishes us as a major BPA market player. Importantly, we also became more capital efficient as we reduced the capital strain from 9% to 6.5%, contributing to us delivering an Internal Rate of Return ('IRR') that exceeded our double-digit hurdle rate. This was despite a competitive market with low credit spreads. Our strong performance reflects the investment we are making to build both a market-leading BPA business and a best-in class asset management capability, enabling us to now quote on c.90% of BPA transactions in the market by volume.

Meanwhile, LTCG from our capital-light Workplace business was stable year-on-year, contributing £139m, with positive net flows of £0.6bn in the year. The multi-year investment we are making into our Workplace proposition is building clear business momentum, with 41 new schemes won during the years. This was supported by our acquisition of the Standard Life brand in 2021 which we are reinvigorating through targeted investments and by offering sustainability focused products, which in turn is reigniting our reputation amongst EBCs and advisers.

Our Customer Savings & Investments ('CS&I') business delivered £29m of LTCG (2020: £56m which is lower year-on-year primarily due to the impact of the sale of the platform businesses to abrdn plc in 2021, which had previously contributed £23m in LTCG. We are engaging with our CS&I customers to better understand their savings needs to enable us to provide innovative retirement solutions to support them across their savings life-cycle.

Finally, both our European business and SunLife delivered increased LTCG of £31m and £35m respectively.

Maintaining strong customer satisfaction

Our focus on delivering better customer outcomes is reflected in our continued strong customer satisfaction scores in 2021. Our Combined Group customer satisfaction telephony score was 92% and our Standard Life digital journeys score was 95% (2020: 94%), both of which exceeded their respective targets. This is due to the investment we are making across our business to deliver a market-leading omni-channel customer service offering and strong product propositions.

In addition, we continued to find ways to better support vulnerable customers and are particularly proud that our new vulnerable customer e-learning offering won 'Best Customer and Employee Engagement Programme' at the 2021 Engage Awards and has been shortlisted in the 2021 British Quality Foundation UK Excellence Awards for 'Excellence in People Development and Engagement'.

Priorities for 2022

We are investing in our Open business and are confident of ongoing organic growth more than offsetting the Heritage run-off.

In our Retirement Solutions business we now have a clear appetite to invest around £300m of capital per annum into BPA, and we already have a strong 2022 pipeline in what is expected to be a £30bn–40bn total market. However, we will maintain our discipline in prioritising value over volume to deliver our target IRRs.

In our Workplace business we want to build on the momentum from 2021 to win further schemes and increase our customer assets over time. This is designed to balance our growth in the more capital-intensive BPA business, with capital-light Workplace asset growth over the longer term.

M&A remains a key priority and we are ready to transact today. We estimate the UK Heritage market is c.£480bn. This includes a small number of large portfolios and a larger number of small-to-mid sized portfolios with estimated consideration of less than £1bn that we could fund from our own resources. We are a trusted partner for vendors and are therefore confident in the outlook for M&A.

How we measure delivery

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

£1,184m

2021 target: >£800m

Definition
New business LTCG represents the operating companies' cash generation that is expected to arise in future years as a result of new Open business transacted in the current period.

Why it matters?
Our strategy seeks to leverage the major market trends that offer significant growth opportunities to deliver incremental new business LTCG. This in turn can offset the run-off of our in-force business (currently c.£800m of cash generation) to ensure that Phoenix is a growing, sustainable business.

Future target
Continue proving 'the wedge' by generating >£800 million of new business LTCG to more than offset the Heritage run-off.

Links
REM APM

Combined Group customer satisfaction – telephony

92%

2021 target: 90%

During 2021 we evolved the way we measure customer satisfaction to capture all of our Group telephony brands. This is the first year of reporting this new measure.

Definition
Customer satisfaction as reported through a survey immediately following a telephony service 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 maintain a customer satisfaction score of 90% or above in 2022.

Links
REM APM

Customer satisfaction Standard Life – digital journeys

95%

2021 target: 92%

Definition
Customer satisfaction as gathered immediately following a customer digital journey, where customers can rate their experience 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 maintain a customer satisfaction score of 92% or above in 2022.

Links
REM APM

Innovate to provide our customers with better financial futures

We want to help our customers secure a life of possibilities by providing the right guidance and products, at the right time, to support the right decisions. We are committed to meeting our customers' needs through innovative product offerings and fund solutions, and engaging them in their financial futures by providing the right education, tools and guidance that promote financial inclusion for all.

We recognise that there are a number of barriers that need to be overcome to help close the pension savings gap. We therefore want to drive a national conversation on better longer lives through Phoenix Insights and are advocating for the wider change that will achieve this.

Empowering better financial decision making

We recognise that there is a range of understanding and confidence that our customers have when planning their financial future, which means different levels of support are required. This is particularly important for customers with lower digital literacy skills and vulnerable customers. That's why we are innovating to find new ways of empowering our customers to plan their financial futures and contribute to the closure of the UK's growing pensions savings gap.

During 2021 we launched several new initiatives aimed at fostering innovation and improving customer financial understanding. This included our digital pilots such as Money Mindset, Homebuyer Hub and Voice Your Investment View.

We have also undertaken several research and customer insight projects during the year that are providing clear insights into how we can promote financial inclusion for all, support our vulnerable customers and increase digital literacy.

Enhancing our fund and product offering

Our customers want us to keep their money safe and provide them with strong long-term financial returns, but increasingly they also want their money to play its part in delivering a sustainable future. We have therefore been exploring and developing new ways to engage people on the impact of their savings to help them invest responsibly.

We also want to make it easy for customers through delivering sustainability by default. That is why our popular Standard Life Sustainable Multi-Asset Solution is now our default fund for any new workplace pension scheme.

Finally, we have been investing in fund and product innovation in order to develop flexible retirement solutions, a broader range of savings options and to ensure that we can offer the sustainable fund choices that meet our customers' differing needs.

Creating a national conversation

People are living for longer, but longer lives are not yet always better lives and we want to change this. That is why we launched Phoenix Insights in November 2021. It is a new think tank set up to transform the way society responds to the possibilities of longer lives. It will focus on two core activities; public engagement and the use of high-quality research and analysis to develop ideas, policies and practical actions that will make a difference.

Advocating for change

As the UK's largest long-term savings and retirement provider, we also have a critical role to play in advocating for change directly. By listening to our customers, we can understand the social issues that impact them the most and we have a dedicated team working with decision makers and wider stakeholders to affect policy change.

For example, in 2021 we published our Menopause & Employment report advocating for more clinical support for women with menopausal symptoms and more appropriate sick leave policies.

While our CEO, Andy Briggs, co-chaired an Employer Group with the Minster for Employment comprising the leading employer groups in the UK in order to tackle the issues impacting employment choices for people who are 50+.

Priorities for 2022

We plan to launch further new initiatives to help people manage their finances and save for the future.

We will also deliver a broader range of savings and retirement solutions, which includes the launch of a new range of Lifetime Mortgage solutions. While in our CS&I business our focus remains on developing innovative and sustainably-led solutions, to help more customers on their journey to and through retirement.

Meanwhile, Phoenix Insights will be launching its inaugural research and an exciting programme of engagement in 2022. With Phoenix Group also continuing to advocate for change with several targeted campaigns planned, including the recent launch of our 'guidance gap' campaign.

How we measure delivery

2022 Key Initiative 1

Enhancing our fund and product offering

Initiative:
move c.£15bn of Assets under Administration and c.1.5m customers invested in Active Plus and Passive Plus Workplace default solutions to our new sustainable strategy.

Purpose:
to increase the proportion of customer assets invested in sustainable investment funds while maintaining their broad risk and returns profile. This is designed to help more of our customers invest responsibly in response to the clear feedback we have received.

2022 Key Initiative 2

Creating a national conversation

Initiative:
Phoenix Insights to launch its inaugural Longer Lives Index in 2022.

Purpose:
to explore and report publicly on the UK's readiness for longer lives.

How:
Working with Frontier Economics, we have conducted a new survey of over 16,000 people aged over 25 across the UK who are not yet retired, exploring their financial readiness for retirement and later life. We have explored five critical dimensions of financial readiness, looking at savings and housing but also work, health, and support from and to family and friends.

Invest in a sustainable future

As the UK's largest long-term savings and retirement business we are responsible for managing c.£310 billion of assets on behalf of our 13 million customers. Our customers and shareholders trust us to reflect their priorities in how we invest. That means keeping their money safe and providing them with strong long-term financial returns, while using our scale to play our part in delivering a secure and sustainable future. By investing sustainably we can help to deliver the future that we all want.

Integrating sustainability considerations into investment decision making

We are integrating consideration of environmental, social and governance issues into our investment decision making process and have identified four key areas where we can make a difference: Climate Change, Regional Development and Levelling-Up, Nature and Biodiversity Loss, and Human Rights.

With the majority of our assets under administration outsourced to our asset management partners, we need to work closely with them to fully integrate ESG. That is why during 2021 we sent an open letter to all of our asset management partners outlining the clear expectations we have of them to support us in delivering our ambitious decarbonisation targets.

In 2021, we also fully embedded material climate-related risks into all Group Risk Policies, and the Board have agreed a new suite of climate risk metrics to support our net zero ambitions and provide ongoing monitoring of our exposure to climate risk. We are committed to providing meaningful climate risk disclosures and have published our first Climate Report in line with the Task Force on Climate-related Financial Disclosures ('TCFD'). We were also the first UK insurance company to sign up to the Partnership for Carbon Accounting financials ('PCAF').

Investing responsibly

We are committed to investing responsibly and are doing this in three ways. We are redesigning our portfolios in line with our sustainability goals, while maintaining the broad risk and return profile. We have the potential to drive real world impact on key issues such as climate change and human rights through the active stewardship of our investments and we are committed to putting our long-term money to work today to build a better future for all our stakeholders through increasing our investment in sustainable assets.

We made good progress in 2021, including investing £1.3bn into sustainable assets, equating to 67% of our new illiquid asset origination (excluding ERM), to exceed our 60% target. This included £542m invested into affordable housing, £364m into healthcare & education, £220m into assets promoting a positive environmental impact and £168m in to other sustainable investments. These investments made tangible differences to society, including supporting 16 housing associations who manage >190,000 homes for some of society's most vulnerable people

Tracking our decarbonisation goals

We are committed to reducing the greenhouse gas emissions of our investment portfolio to net zero by 2050. Recognising that urgent action is required now, we strengthened our commitment in 2021 and announced ambitious interim decarbonisation targets for the Group's investment portfolio. This includes our target for a 25% reduction in the carbon emission intensity of our c.£160 billion of listed equity and credit assets where we exercise control and influence by 2025 and a >50% reduction in the carbon emission intensity of the c.£250 billion of assets directly within our control by 2030. In 2021 we focused on measuring the baseline carbon footprint of our c.£160bn of listed credit and equities, enabling us to now track and monitor our progress.

Reducing our environmental impact

Phoenix is also committed to achieving net zero for our own operations by 2025 and in 2021 we achieved a 34% year-on-year reduction in Scope 1 and 2 emissions from occupied premises per FTE intensity. We also issued an open letter to c.1,500 suppliers asking them to set clear sustainability targets for their businesses that are aligned with Phoenix's goals.

Engaging to drive system change

We also want to use our insight and knowledge to lead the debate around key challenges as we work with government, NGOs, and across our industry and the economy to remove the barriers to net zero investment and define best practice. With our leading role in developing the ABI's Climate Change Roadmap one example.

Priorities for 2022

We will continue to execute on our sustainability strategy at pace. This includes developing a clear transition plan to deliver our net zero targets, further enhancing our emission tracking frameworks and by continuing to increase our investment in sustainable assets. We will also be aligning to the Stewardship Code in readiness for full certification in 2023.

How we measure delivery

60% of illiquid asset origination (excluding ERM) in sustainable assets

67%

2021 target: 60%

Definition
The proportion of our annual new illiquid asset origination (excluding ERM) that is invested into sustainable assets.

Why it matters?
Responsible investment is at the core of our strategy and will deliver benefits to policyholders, investors and wider society. Increasing our investment in sustainable assets will support a better world for us all to live in.

Future target
At least 60% of illiquid asset origination (excluding ERM) to be in sustainable assets in 2022.

Links
REM APM

Net zero carbon across our own operations by 2025

34% year-on-year reduction in emissions intensity

2021 target: 20% y-o-y reduction

Definition
Net zero carbon emissions from our own Scope 1 and Scope 2 operational emissions by 2025.

Why it matters?
We are committed to the need to reduce greenhouse gas emissions and accelerate the transition to a low-carbon future. We recognise this begins with our own operations and have plans in place to achieve net zero by 2025.

Future target
20% reduction (2022 vs. 2021 target) in Scope 1 and 2 emissions from occupied premises per FTE intensity.

Links
REM APM

Net zero carbon across our investment portfolio by 2050

Interim targets set

Definition
Net zero carbon emissions across our entire investment portfolio by 2050.

Why it matters?
We are committed to the need to reduce greenhouse gas emissions and accelerate the transition to a low-carbon future. We recognise the need for a clear transition plan to achieve our ambition for net zero carbon across our c.£310bn investment portfolio.

Future target
In 2022 – we will develop and submit for validation emission reduction targets in line with the SBTi financial sector guidance.

By 2025 – we will deliver a 25% reduction in the carbon emission intensity of c.£160bn of listed equity and credit assets where we exercise influence and control.

By 2030 – we will deliver a >50% reduction in the carbon emission intensity of the c.£250bn of assets directly within our control.

Links
REM APM

Delivering cash, resilience and growth

> It was a pivotal year for Phoenix as we proved 'the wedge' for the first time and announced our inaugural dividend increase of 3% for 2021."

Rakesh Thakrar
Group Chief Financial Officer

Scan the code to watch the video from our CFO →

A strong financial performance in 2021

Key financial metrics:		2021	2020	YOY change
Cash	Cash generation	£1,717m	£1,713m	0%
Solvency II Capital	PGH Solvency II surplus	£5.3bn	£5.3bn	–
	PGH Shareholder Capital Coverage Ratio ('SCCR')	180%	164%	+16%pts
New Business	Incremental long-term cash generation	£1,184m	£766m	55%
Dividends	Total dividend per share	48.9p	47.5p	
	Final dividend per share	24.8p	24.1p	+3%

Other financial metrics:		2021	2020	YOY change
Assets	Assets under administration	£310bn	£307bn[1]	+1%
Leverage	Fitch leverage ratio	28%	28%	–
IFRS	(Loss)/profit after tax	£(709)m	£834m	N/A
	Operating profit before tax	£1,230m	£1,199m	3%

1 Proforma for the disposal of £29 billion of assets from the Wrap SIPP, TIP and Onshore Bond businesses sold to abrdn plc in 2021, as well as £2 billion of assets from Ark Life which was sold to Irish Life in 2021

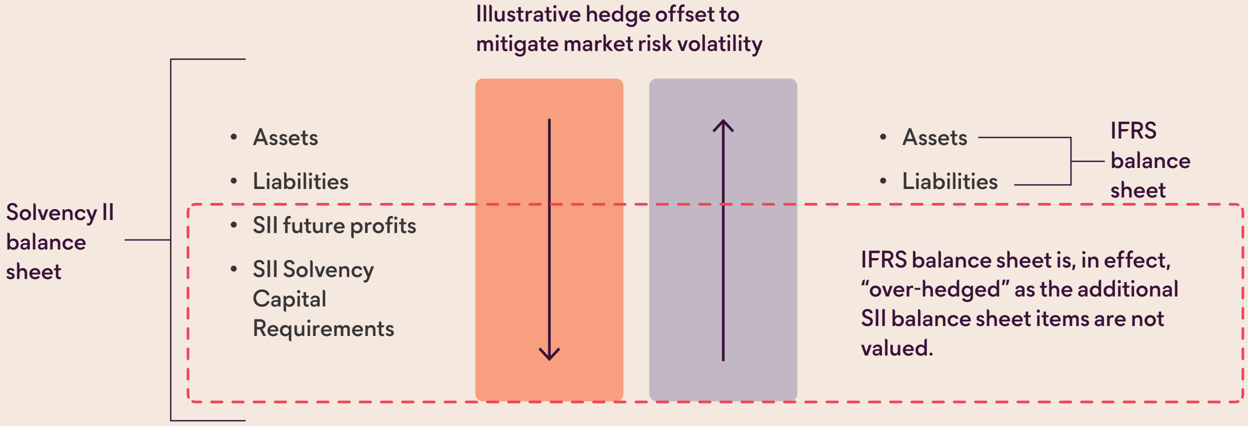
Phoenix has delivered another strong financial performance in 2021. We reported record cash generation of £1.7 billion, exceeding our target range of £1.5bn-to-£1.6bn for the year, and maintained our resilience through a strong Solvency II (SII) balance sheet with a SII surplus of £5.3 billion and SII SCCR of 180%.

In 2018 we set out a strategy to prove 'the wedge' hypothesis, by investing to deliver new business growth which would allow us to offset the natural run-off of the Heritage business cash generation (currently c.£800 million). I am therefore delighted that we have delivered £1.2 billion in new business long-term cash generation in 2021 to more than prove 'the wedge'.

Having met our two conditions for organic dividend growth, the Board has recommended our inaugural organic dividend increase of 3%, which remains just as sustainable over the long-term owing to our business growth in 2021.

Phoenix Group's unique hedging approach

We operate a unique risk management framework which sees us hedge what we deem 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 and European peers. However, as a result of our hedging approach, we do see significant accounting volatility (as illustrated below) which distort the IFRS metrics. Importantly though this does not impact our cash generation delivery or dividend paying capacity, which is funded from our Solvency capital position. This is why we utilise a range of alternative performance metrics to track the performance of our business, as described below.



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 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 page 38 and the IFRS financial statements are set out from page 155 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 free surplus above capital requirements distributed from the life companies to the Group, generated through margins earned on different life and pension products and the release of capital requirements.

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')".

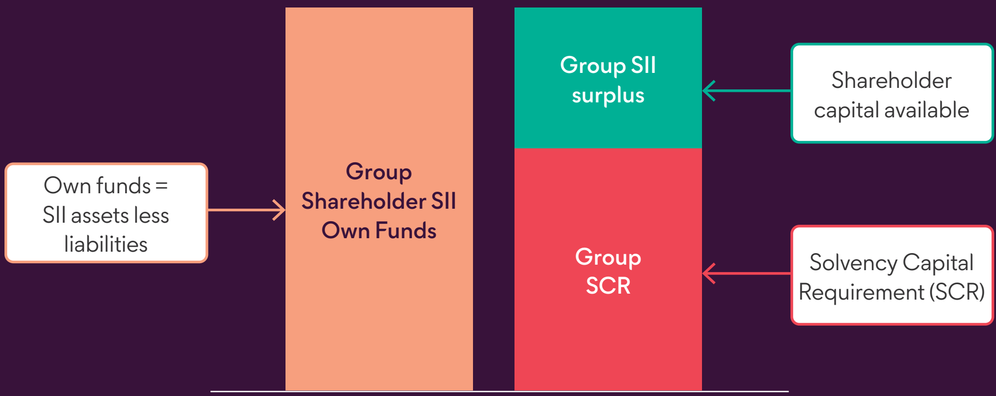
Fitch leverage
The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure we maintain our investment grade rating issued by Fitch Ratings and optimise our financial flexibility to support future acquisitions. Our financial leverage is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

Incremental long-term cash generation
Incremental 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 current period within our Open business, including Bulk Purchase Annuities ('BPA'). By generating sufficient incremental long-term cash generation to offset the run-off of our Heritage business cash flows (currently c.£800 million per annum), we can bring sustainability to future cash generation to prove what we describe as 'the wedge' hypothesis.

Assets under Administration
The Group's Assets under Administration ('AUA') is another measure of growth. It 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.

Operating profit
The Group uses operating profit as a further performance measure to demonstrate longer-term performance on an IFRS basis. Operating profit is less affected by the short-term market volatility driven by Solvency II hedging (as illustrated above) and non-recurring items than IFRS profit. A more detailed definition of operating profit is set out on page 321.

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, changes in assumptions and dividends cause own funds to fall.

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 ReAssure and Standard Life International DAC 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 319 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.

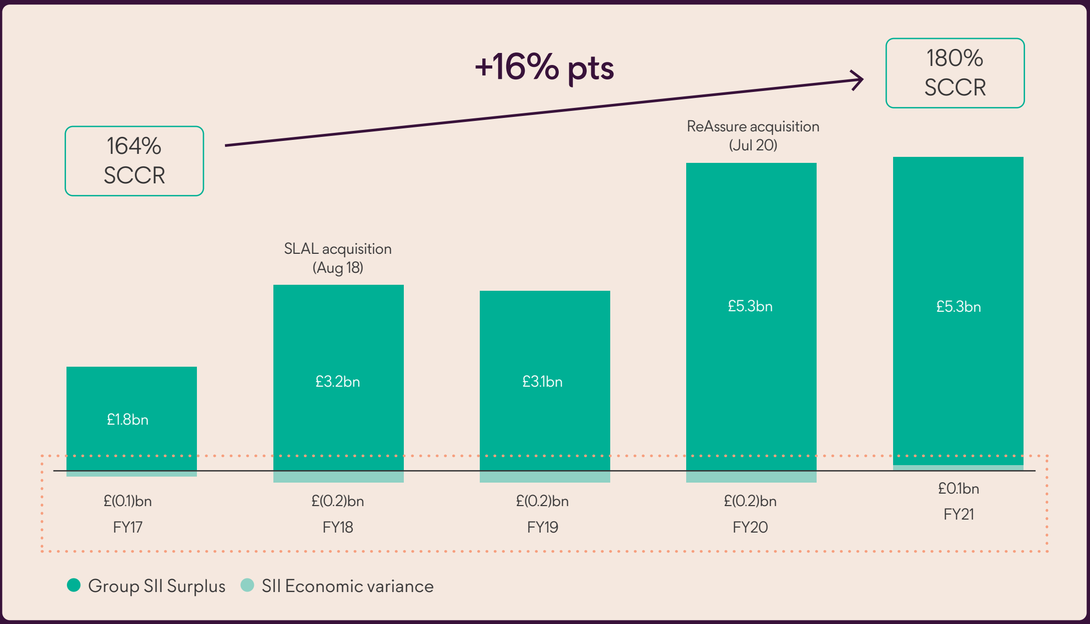
Shareholder Capital Coverage Ratio ('SCCR')

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.

Our unique hedging approach delivers a resilient Solvency II surplus regardless of market volatility and growth in company size

The success of our hedging approach is demonstrated below, which shows our limited Solvency II economic variances through a period of significant market volatility and growth in the company through M&A transactions.



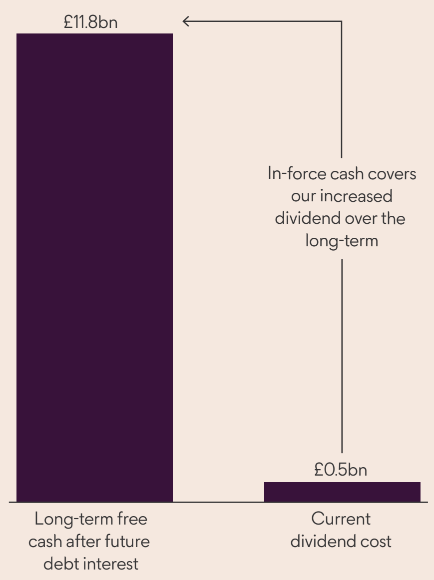
Solvency II resilience underpins our dependable cash generation and sustainable dividend

Phoenix is the market leader in managing in-force business for cash and resilience, which in turn underpins our sustainable dividend over the long term. We have a strong track record of delivering high levels of cash generation over many years. The majority of the Group's cash generation stems from the run-off of 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 unique 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 estimate that our in-force business will generate £11.8 billion of Group long-term free cash (after repaying debt maturities and deducting expected interest costs), that is available to our shareholders or for growth. With an annual dividend cost of c.£0.5 billion, this level of Group free cash sustains our dividend over the long term and this dividend dependability differentiates us.

Long term dividend sustainability



Cash

£1,717m
Operating companies' cash generation

£13.2bn
Group Long-Term Free Cash

Cash generation & group liquidity

Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies. Please see the APM section on page 321 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 inorganic 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	2021	2020
Cash and cash equivalents at 1 January	**1,055**	**275**
Operating companies cash generation:		
Cash receipts from life companies	1,717	1,073
Cash remittances to Standard Life international	–	(50)
Total cash receipts[1]	**1,717**	**1,023**
Uses of cash:		
Operating expenses	(80)	(42)
Pension scheme contributions	(11)	(80)
Debt interest	(250)	(184)
Non-operating cash outflows	(305)	(66)
Uses of cash before debt repayments and shareholder dividend	**(646)**	**(372)**
Debt repayments	(322)	–
Shareholder dividend	(482)	(403)
Total uses of cash	**(1,450)**	**(775)**
Debt issuance (net of fees)	–	1,445
Cost of acquisitions	–	(1,265)
ReAssure Holding Company cash acquired	–	580
Support of BPA activity	(359)	(228)
Closing cash and cash equivalents at 31 December	**963**	**1,055**

1 Total cash receipts include £95 million received by the holding companies in respect of tax losses surrendered (2020: £108 million). 2020 excludes £690 million of cash generation from ReAssure arising in period prior to completion.

Cash receipts

Cash generated by the operating companies during 2021 was £1,717 million (2020: £1,713 million). This exceeded the Group's target range of £1.5bn-to-£1.6bn million for the year.

Uses of cash

Operating expenses of £80 million (2020: £42 million) represent corporate office costs, net of income earned on holding company cash and investment balances. The increase relative to 2020 reflects the inclusion of a full year of costs borne by the ReAssure corporate entities, together with increased LTIP costs and the costs associated with the development of capabilities across our Group functions as we execute our growth strategy.

Annual pension scheme contributions of £11 million (2020: £80 million). 2021 only reflects contributions into the Abbey Life Scheme, due to the completion of contributions into the Pearl Pension Scheme during 2020.

Debt interest of £250 million (2020: £184 million) increased in the year due to the inclusion of a full year's coupon on the three debt instruments substituted to the Group as part of the acquisition of the ReAssure businesses in August 2020 (£250 million Tier 2, £500 million Tier 2 and £250 million Tier 3), and additional debt raised to help fund the acquisition.

Non-operating cash outflows of £305 million (2020: £66 million) include £230 million of Group project expenses including transition activity, and the £68 million settlement of a creditor recognised at 31 December 2020 with abrdn plc ('abrdn') relating to amounts due under indemnity arrangements pertaining to FCA Thematic Review findings in Standard Life. Other items included £49 million of net cash received from abrdn upon entering into a new agreement to simplify the strategic partnership, including consideration for the disposal of the Wrap SIPP, Onshore Bond and TIP businesses, and £56m of net other items, including hedge collateral posted and one-off ReAssure costs.

Shareholder dividend

The shareholder dividend of £482 million represents the payment of £241 million in May for the 2020 final dividend and the payment of the 2021 interim dividend of £241 million in September.

Debt repayments & issuance (net of fees)

£322 million of debt repayments in 2021 include the £200 million Tier 2 subordinated bond in April and £122 million senior bond in July. (2020: debt issuance of £1,445 million net of fees).

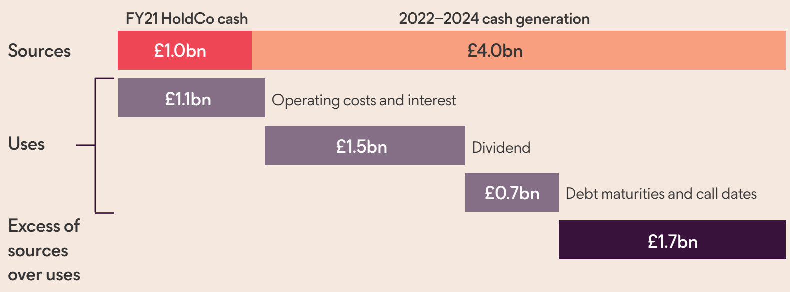
Support of BPA activity

Funding of £359 million (2020: £228 million) has been provided to the life companies to support a strong year in BPA with £5.6 billion of premiums written. With the capital strain on BPAs having reduced to 6.5% in 2021 (2020: 9%).

Future sources and uses of cash

Looking over the period 2022–24, we expect to have significant Group cash resources of around £5.0 billion. This will more than cover the Group's expected uses of c.£3.3 billion for operating and integration costs, debt interest and repayments, and our shareholder dividend cost at its new, increased level. As a result, the Group expects to have a significant amount of surplus cash of around £1.7 billion available for investment into organic growth through BPA and inorganic growth opportunities through further M&A.

Illustrative 2022–2024 HoldCo sources and uses of cash



Group Long-Term Free Cash

£bn	Group LTFC Year ended 31 December 2021	Group LTFC Pro forma Year ended 31 December 2020[1]
Long-term in-force cash generation	17.0	17.7
Less M&A and transition costs	(0.2)	(0.3)
Plus closing Holding Company cash	1.0	1.0
Long-term Group cash	**17.8**	**18.4**
Less shareholder debt	(4.6)	(5.0)
Group Long-Term Free Cash	**13.2**	**13.4**

1 Stated on a pro forma basis to reflect the impact of the sale of Wrap SIPP, Onshore Bond and TIP products to SLA (£0.2bn) and the impact of the increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget (£0.3bn).

Group long-term free cash

Group Long-Term Free Cash ('LTFC') is comprised of 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.

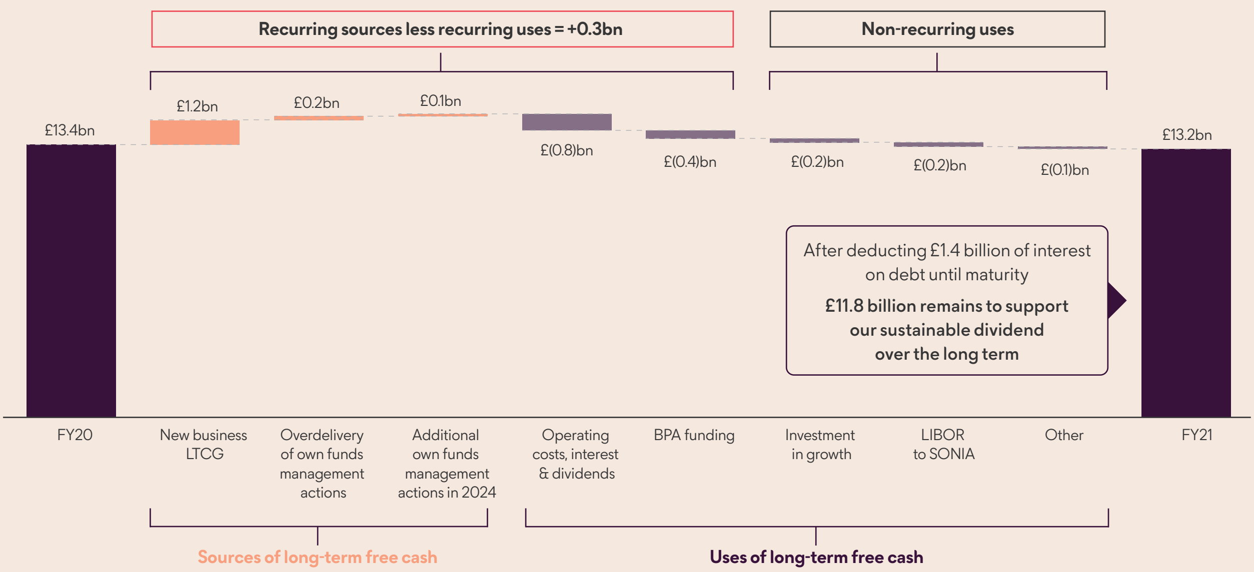
LTFC is an important measure for demonstrating the business is growing, as we seek to ensure that our recurring sources of cash exceed our recurring uses. This is one of the two conditions we had set for considering an inaugural organic dividend increase.

I am therefore delighted that the investment in our capabilities has enabled us to deliver £1.2 billion of incremental long-term cash generation during the year. When combined with our £0.2 billion over-delivery of management actions in 2021 and an additional year of estimated management actions now reflected for 2024 in our targets, we have seen our recurring sources of cash exceed our recurring uses by c.£0.3 billion in the year. This means we met our second dividend condition, which supported our decision to increase our shareholder dividend for 2021.

Group long-term free cash was £13.2 billion at the end of 2021, slightly down on 2020 (£13.4 billion) due to some non-recurring expenses. The first of these is the significant investment we are making into the capabilities needed to deliver our continued growth ambitions, where the capitalised impact of future costs has decreased LTFC by c.£0.2 billion. The second non-recurring expense was from the industry-wide transition from LIBOR-to-SONIA which had a c.£0.2 billion adverse impact.

With £13.2 billion of LTFC available, we have a significant amount of dependable cash that will emerge from our current in-force book, which supports our increased dividend over the very long term.

2021 change in Group Long-Term Free Cash



Resilience

£5.3bn
Group Solvency II surplus (estimated)

180%
Group Shareholder Capital Coverage ratio (estimated)

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 £5.3 billion, which includes the deduction of our 2021 final dividend. Our Shareholder Capital Coverage Ratio ('SCCR') has increased from 164% to 180%, and is currently at the top-end of our 140%-to-180% target range, providing the capacity to invest into both organic and inorganic growth opportunities.

Change in Group Solvency II surplus (estimated)
The Group Solvency II Surplus has remained stable at £5.3 billion year-on-year. Our ongoing surplus emergence of £0.6 billion and significant over-delivery of management actions at £1.5 billion provided us with the capacity to pay our operating costs, dividends and interest of £0.8 billion, with surplus then available for reinvestment into growth, and headroom to absorb several non-recurring impacts.

We delivered a record level of management actions in 2021, which included around £0.7 billion from "BAU" activity, including illiquid asset origination and asset risk management actions. In addition, our internal model harmonisation success provided a significant contribution, at around £0.6 billion, the majority of which was a reduction in SCR.

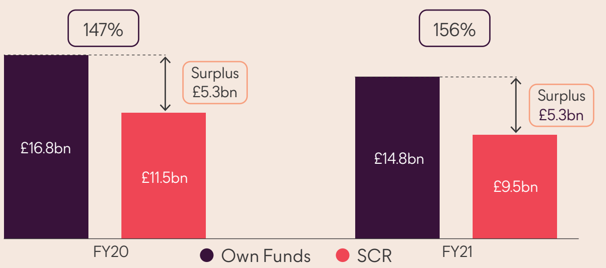
As a result of our unique hedging strategy, designed to stabilise our capital position, we saw a small £0.1 billion positive economic variance This extends our track record of small economic variances through periods of market volatility.

We invested £0.4 billion of capital into growth, primarily for the funding of £5.6 billion of BPA premiums written in the year.

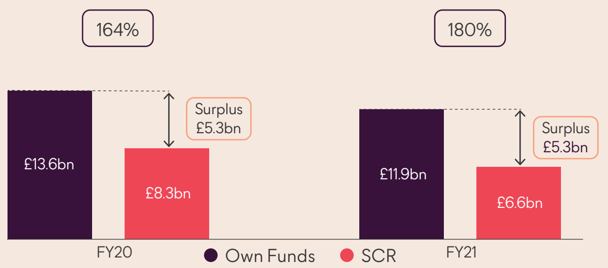
Elsewhere, assumptions, model and methodology changes were negative £0.2 billion and we repaid debt of £0.2 billion. There was also an adverse impact of £0.3 billion from the industry-wide transition from LIBOR-to-SONIA and the change in the UK Corporation Tax rate. A range of other items totalled a negative £0.3 billion.

Change in SCCR (estimated)
While the surplus remained stable year-on-year, our SCCR has increased by 16%pts to 180% as at 31 December 2021 with a number of contributing factors.

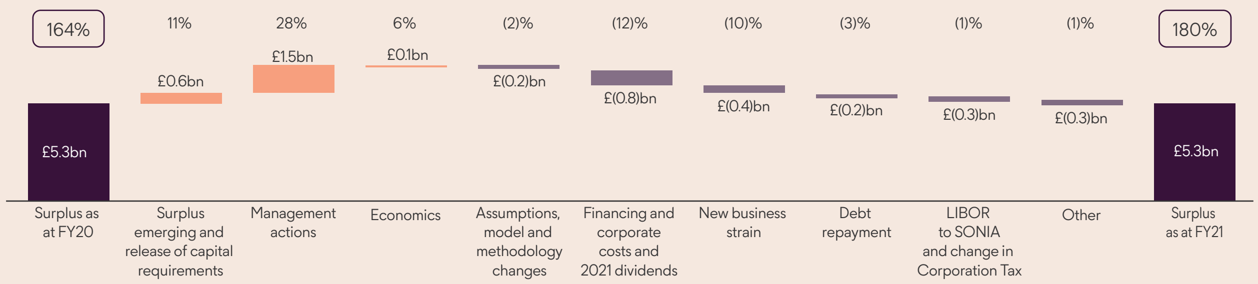
£5.3 billion Group Regulatory Solvency II surplus



£5.3 billion Group Shareholder Solvency II surplus



2021 change in Group Solvency II Surplus (£bn)



The largest single contributor was the £1.5 billion of management actions delivered, which increased the SCCR by 28%pts.

We have also reflected the future change in the Corporation Tax rate, which had a positive impact on the SCCR primarily due to an increase in loss absorbing capacity of deferred taxes in the SCR, and the transition from LIBOR-to-SONIA. The net combination of these two impacts has decreased our SCCR by 1%pt.

Further adverse SCCR movements include the strain borne from the writing of new BPA business which decreased the SCCR by 10%pts and the c.£0.2 billion debt repayment which reduced the SCCR by 3%pts.

Sensitivity and scenario analysis

As part of the Group's internal risk management processes, the Own Funds and regulatory SCR are tested against a number of financial scenarios.

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 illustrative 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. We use a range of hedging instruments to hedge these risk exposures in order to stabilise the SII surplus. This translates into the low sensitivities presented in the table above.

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.

Illustrative risk exposure stress testing

Estimated impact[1] on PGH Solvency II	Surplus £bn	SCCR %
Solvency II base	**5.3**	**180**
Equities: 20% fall in markets	0.1	4
Long-term rates: 80bps rise in interest rates[2]	(0.2)	3
Long-term rates: 70bps fall in interest rates[2]	0.2	(3)
Long-term inflation: 70bps rise in inflation[3]	Nil	(1)
Property: 12% fall in values[4]	(0.2)	(3)
Credit spreads: 150bps widening with no allowance for downgrades[5]	(0.4)	(4)
Credit downgrade: immediate full letter downgrade on 20% of portfolio[6]	(0.4)	(10)
Lapse: 10% increase/decrease in rates[7]	(0.2)	(1)
Longevity: 6 months increase[8]	(0.7)	(11)

1 Assumes stress occurs on 1 January 2022 and that there is no market recovery.
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 70bps 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 150bps 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 no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
8 Applied to the annuity portfolio.

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.

Rewarded credit risk sensitivities

We do however retain the credit risk in our c.£40 billion shareholder credit portfolio, where we see the risk as rewarded. The shareholder credit assets are primarily used to back the Group's annuity portfolio.

However, we actively manage our credit portfolio to ensure it remains high quality and diversified, and to maintain our sensitivities within risk appetite.

The key sensitivity we focus on here is a full letter downgrade of 20% of our credit portfolio, which reduced slightly in 2021 to £0.4 billion and is therefore small in the context of the Group's £5.3 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. While 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. As at 31 December 2021, the Life Company Free Surplus is £2.6 billion (2020: £2.9 billion). The table shown analyses the movement in 2021.

	Estimated position as at 31 December 2021 £bn
Opening Free Surplus	**2.9**
Surplus generation and run-off of capital requirements	0.8
Management actions	1.2
Economics, financing and other	(0.7)
Free Surplus before cash remittances	**4.2**
Cash remittances to holding companies	(1.6)
Closing Free Surplus	**2.6**

Growth

£1,184m
Incremental new business long-term cash generation

c.£310bn
Assets under Administration

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 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 314.

Please see the APM section on page 321 for further details of these measures.

Incremental new business long-term cash generation

We have delivered a record level of incremental new business long-term cash generation of £1,184 million in 2021, with a 55% increase on 2020 (£766 million).

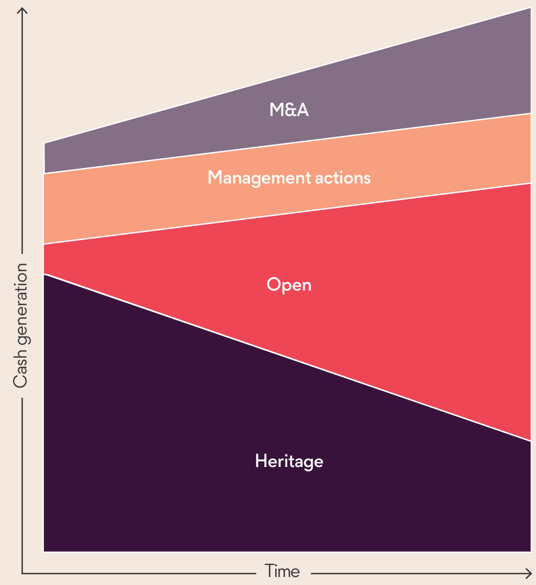
This means that for the first time we have delivered new business growth which allows us to offset the natural run-off of the Heritage business cash generation of c.£800 million, thus more than proving 'the wedge' (as depicted above to the right).

This is a pivotal moment for Phoenix as it demonstrates we are a growing, sustainable business.

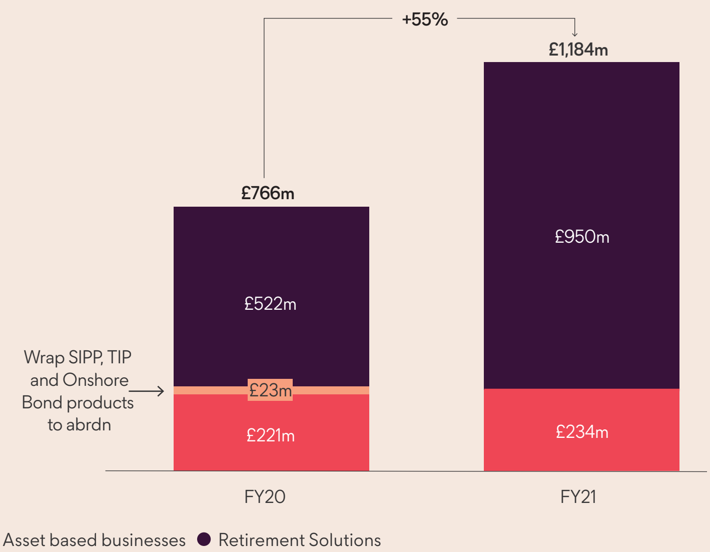
Retirement Solutions

The investment we have made into developing our Bulk Purchase Annuity ('BPA') business and asset management capabilities has supported Phoenix in writing £5.6 billion of BPA premiums in 2021. Having completed two significant transactions of £1.7 billion and £1.8 billion, it is clear we have become an established BPA market player.

We have proven 'the wedge' hypothesis in 2021



Incremental new business long-term cash generation analysis



This in turn has delivered £950 million of long-term cash generation, an 82% increase on 2020 (£522 million). We also successfully reduced our capital strain from 9% in 2020 to 6.5% in 2021, largely reflecting the capital efficiency benefit from our new harmonised internal model. Despite a competitive market and low credit spreads, we have maintained our pricing discipline which is evidenced by our delivery of a double-digit IRR in 2021.

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.

Workplace

Our Workplace business has delivered broadly stable incremental long-term cash generation of £139 million in the year (2020: £140 million), which largely reflects several large scheme losses offsetting new business growth.

However, I was delighted that we saw clear momentum building in our Workplace business, with 41 new schemes won during 2021. While these schemes are small in terms of assets, it is an important milestone, with advisers giving us the opportunity to prove ourselves on these smaller schemes, before we hopefully begin winning the larger schemes in time.

Customer savings and investment ('CS&I')

The 2021 incremental long-term cash generation of £29 million from our CS&I business is down on the prior year (2020: £56 million) primarily due to the sale of the platform businesses to abrdn which contributed £23 million of incremental long-term cash generation in 2020.

Europe

We have seen an increase in the incremental long-term cash generation from our European business at £31 million (2020: £25m), reflecting a marked increase in Offshore Bond sales in the Irish business.

SunLife

Our incremental long-term cash generation from SunLife of £35 million has increased year-on-year (2020: £23 million) due to strong new business in the period.

Group AUA

Group AUA as at 31 December 2021 was £310.4 billion (2020: £337.7 billion). The decrease in the year is driven by the removal of £29.1 billion of AUA relating to the disposal of the Wrap SIPP, TIP and Onshore Bond business to abrdn, and the removal of £1.8 billion of Ark Life assets following its disposal to Irish Life.

Heritage net flows

UK Heritage net outflows of £11.2 billion (2020: £7.3 billion) reflect policyholder outflows on claims such as maturities and surrenders, net of total premiums received in the period from in-force contracts. This increase year-on-year is due to the inclusion of a full years' experience of ReAssure Heritage net flows compared with five months post acquisition that were reported in 2020.

Retirement Solutions net flows

Net flows in Retirement Solutions, which encompasses our individual annuity and BPA businesses, were £3.3 billion (2020: £0.9 billion). in 2021. Gross inflows during the period were £6.2 billion (2020: £3.2 billion), inclusive of £5.6 billion of new BPA premiums written in the year. Outflows of £2.9 billion in the period (2020 £2.3 billion) primarily reflect the natural run-off of our in-payment annuity policies.

Workplace net flows

Net inflows within our Workplace business were a positive £0.6 billion in 2021 (2020: £1.7 billion). Gross inflows were £4.9 billion, slightly up on 2020 (£4.7 billion). However, 2021 outflows of £4.3 billion (2020: £3.0 billion) were impacted by c.£2 billion of historic scheme losses delayed partly due to the pandemic and reflect decisions taken on our legacy proposition that has since been improved substantially.

Positive net flows in the year provide a platform to build upon, and the 41 schemes won in 2021, while small, are testament to the reignited market interest in the Standard Life proposition following our brand acquisition and investment.

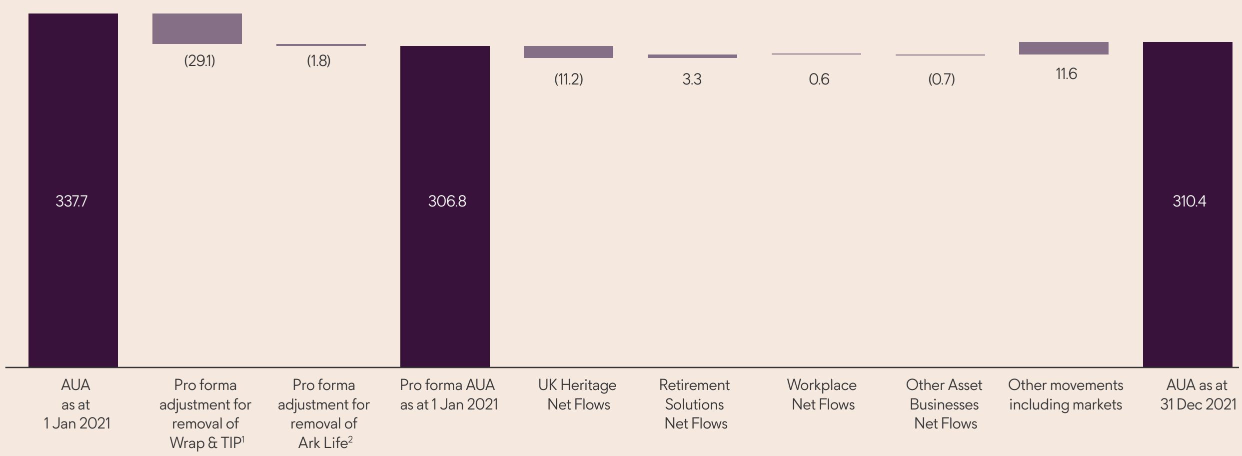
Other asset businesses net flows

We have seen net outflows of £0.7 billion businesses (2020: £0.3 billion net inflows) from our other asset based businesses. Gross inflows were £4.7 billion in the year (2020: £6.3 billion), primarily reflecting our individual retirement products sold in the UK and Europe, while outflows of £5.4 billion in the year (2020: £6.0 billion) are largely due to the natural run-off of our CS&I and Europe businesses.

Other movements including markets

AUA increased by £11.6 billion (2020: £18.5 billion) as a result of other movements, largely driven by the net positive impacts of market movements, largely due to a rise in equity markets.

Movement in AUA (£bn)



IFRS results

£1,230m
Operating profit

28%
Fitch leverage ratio

£(709)m
IFRS loss after tax

IFRS (loss) / profit is a GAAP measure of financial performance and is reported in our statutory financial statements on page 155 onwards.

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 321 for further details of this measure.

IFRS profit and loss statement

£m	2021	2020
Heritage	537	431
Open	788	817
Service company	(24)	6
Group costs	(71)	(55)
Operating profit before tax	**1,230**	**1,199**
Investment return variances and economic assumption changes	(1,125)	101
Amortisation and impairment of intangibles	(639)	(482)
Other non-operating items	(65)	281
Finance costs	(217)	(191)
Profit before tax attributable to non-controlling interest	128	36
(Loss)/profit before tax attributable to owners	**(688)**	**944**
Tax charge attributable to owners	(21)	(110)
(Loss)/profit after tax attributable to owners	**(709)**	**834**

IFRS (loss)/profit after tax

The Group generated an IFRS loss after tax attributable to owners of £709 million (2020: profit of £834 million), which primarily reflects £1,125 million of adverse investment return variances and economic assumption changes and £639 million of charges for amortisation and impairment of intangibles, as well as several other movements shown in the table to the right.

Operating profit

The Group generated an increased operating profit of £1,230 million (2020: £1,199 million), reflecting the contribution of a full year of profits from the ReAssure business and increased Bulk Purchase Annuity ('BPA') new business in the period, offset by the adverse impact of strengthened expense assumptions required to reflect our growth ambitions.

The 2020 split of operating profit by segment has been restated to reflect that the management and reporting of ReAssure has been aligned with that of the other Group businesses. In 2020 ReAssure was shown as a separate segment, whereas this is now allocated within our Heritage and Open business segments.

Basis of operating profit

Operating profit generated by our Heritage and Open business segments is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of 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.

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 operating profit. Operating profit is net of policyholder finance charges and policyholder tax.

Heritage 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 operating profit of £537 million (2020: £431 million[1]), including a full year of profits for ReAssure, partly offset by a strengthening of expense assumptions.

Open operating profit

The Group's Open business segment delivered an operating profit of £788 million (2020: £817 million[1]). This includes operating profits generated in the Group's Retirement Solutions, Workplace and CS&I business units, as well as new business distributed through the Group's SunLife brand and our European operations. 2021 includes stronger Retirement Solutions new business profits of £291 million (2020: £216 million). This was more than offset by a reduced longevity benefit that was c.£100 million lower than in 2020 due to an element of positive one-off updates to ReAssure longevity assumptions last year, and strengthening of expense assumptions to reflect the investment into our growth ambitions.

Service company

The operating loss for management services from the service company of £24 million (2020: profit of £6 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 the Open division and the development of asset management capabilities in support of our growth strategy. This partly reflects that these costs have not yet been factored into the management service agreements for recharging back to the life companies.

Group costs
Group costs in the period were £71 million (2020: £55 million[1]). They mainly comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes. The increase in costs compared to the prior period principally reflects the inclusion of a full year of corporate and project costs associated with the ReAssure businesses (versus five months in 2020) and costs associated with developing out our Group capabilities to support our growth ambitions.

Investment return variances and economic assumption changes
The net adverse investment return variances and economic assumption changes of £1,125 million (2020: £101 million positive) have primarily arisen as a result of rising yields, increasing inflation and rising global equity markets. Movements in yields, inflation and equity markets are hedged to protect our Solvency II surplus from volatility, but our IFRS balance sheet is, in effect, "over-hedged" as it is not impacted by the additional SII balance sheet items (see illustration on page 29) . Therefore, the impact of the adverse hedging instrument values, which offset the positive market movements in the period gives rise to losses in the IFRS results. However, importantly the Group's cash generation and dividend capacity are broadly unaffected by this due to the Group's continued resilient Solvency balance sheet.

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.

Amortisation and impairment of acquired in-force business during the year totalled £572 million (2020: £464 million) with the increase from the prior year driven by a full year's amortisation charges on intangible assets recognised on acquisition of ReAssure and an impairment charge of £40 million primarily arising from the sale of Ark Life and an update to the reserving methodology on a specific block of European unit-linked insurance contracts.

Amortisation and impairment of other intangible assets totalled £67 million in the year (2020: £18 million), including a £47 million impairment charge in relation to goodwill associated with the management services companies.

Other non-operating items
The previously acquired in-force business Other non-operating items had an adverse impact of £65 million in the year (2020: £281 million positive).

Positive impacts include the £110 million net gain recognised on the transaction to simplify the strategic relationship with abrdn plc, including the disposal of the Wrap SIPP, Onshore bond and TIP businesses, and the acquisition of the Standard Life brand. Also included is an £83 million policyholder tax benefit recognised following the favourable conclusion of discussions with HMRC in respect of excess management expenses attached to the L&G Mature Savings business acquired as part of ReAssure.

These positive non-operating items are offset by a number of non-recurring expenses. Integration costs of £119 million across both the Standard Life and ReAssure programmes, including delivery of the harmonised internal model, were incurred and are inclusive of internal costs. There was also a £58m impact of providing for the costs of implementation of the new IFRS 17 insurance accounting standard. While we also incurred a loss of £23 million recognised on disposal of Ark Life, which includes the recycling of £14 million of foreign exchange ('FX') losses that had been accumulated in the FX reserve on consolidation.

The remaining non-recurring expenses of £58 million relate to various Group projects. The large variance to the prior year is largely due to a sizeable gain that was recognised on acquisition of the ReAssure business of £372 million during 2020.

Finance costs
Finance costs of £217 million (2020: £191 million) have increased by £26 million, reflecting a full year of interest charges on the three debt instruments which were substituted to the Group as part of the acquisition of the ReAssure businesses in July 2020 and the additional debt issued by the Group to finance the ReAssure acquisition.

Tax charge attributable to owners
The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the corporate responsibility section of the Group's website.

The Group tax charge for the period attributable to owners is £21 million (2020: £110 million) based on a loss (after policyholder tax) of £688 million (2020: profit of £944 million).

The tax credit of £131 million arising on the loss (after policyholder tax) is primarily offset by a £147 million tax charge arising from the impact of the new 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 2021 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 28% (2020: 28%). This is within the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

1 2020 operating profit split has been restated to split ReAssure across Open, Heritage and Group costs segments as appropriate

Dividend

48.9p
Total 2021 dividend per share

+3%
organic dividend increase in the Final 2021 dividend

Inaugural organic dividend increase
Phoenix has a strong dividend track record as demonstrated in the graph and we have significantly outperformed the wider FTSE 100 over the past seven years. However, until now our historical dividend increases had only come from M&A.

We had outlined two clear conditions that would act as triggers for the Board to consider an organic dividend increase.

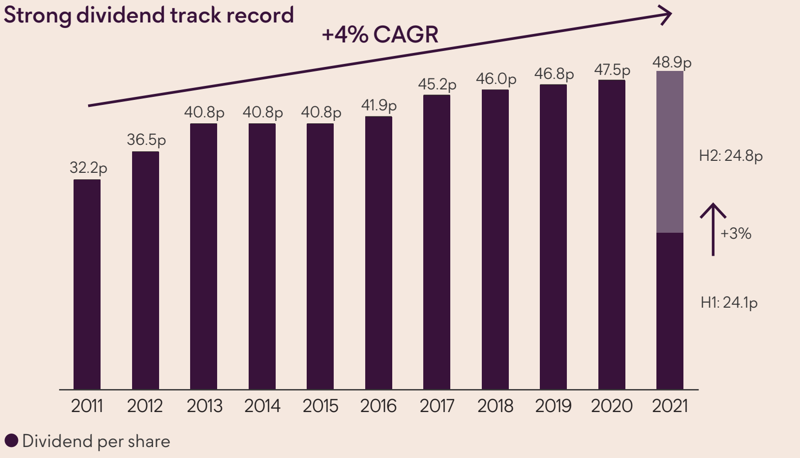
The first was to prove 'the wedge' through organic growth that would more than offset the run-off of our Heritage business (currently c.£800 million p.a.). The second was that the Group's recurring sources of cash exceeded our recurring uses.

I am delighted that we have met these two conditions in 2021, having proven 'the wedge' with new business long-term cash generation of £1.2 billion and with our recurring sources of cash exceeding our recurring uses by around £300 million.

As a result, the Board has assessed that a dividend increase is appropriate and is therefore recommending the Group's inaugural organic dividend increase of 3% in the Final 2021 dividend to 24.8 pence per share, This equates to a Total 2021 dividend of 48.9 pence per share.

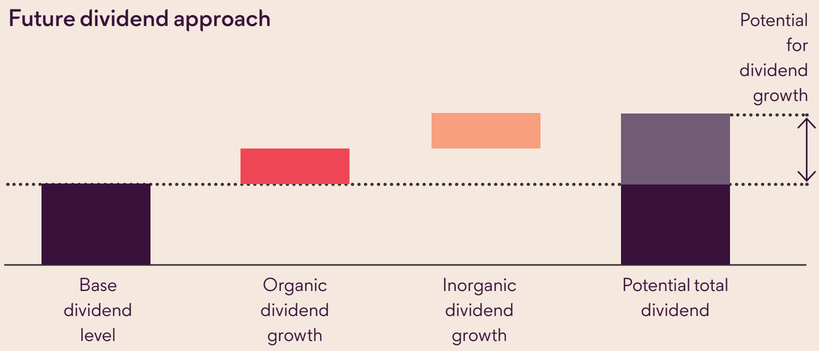
This increase reflects both the growth in our business and our strong overdelivery of management actions in 2021. Our new, increased level of dividend is just as sustainable as it was previously.

Strong dividend track record



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

Future dividend approach



Future dividend policy and approach
Having proven 'the wedge' for the first time and announced our inaugural organic increase, the Board has evolved our dividend policy to reflect the growing, sustainable business that Phoenix now is.

We have evolved our previous policy that was for a "stable and sustainable dividend" to a policy which is to pay a dividend that is sustainable and grows over time.

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

Phoenix Group can now grow both organically through its Open business and inorganically through M&A. The Board will therefore now assess annually whether business growth can fund a dividend increase that is sustainable over the long term.

We are confident that the cash from today's in-force business, without any new business or any M&A, can pay our current, increased dividend over the long term. What is really exciting is that we now have two sources of potential dividend increases, through both organic growth and inorganic growth.

The Board and I believe this is an important milestone in the evolution of the Phoenix Group investment case.

Outlook

Phoenix is a growing, sustainable business

Looking ahead
We have a differentiated strategy, which leverages the major market trends, and where the whole is greater than the sum of the parts.

Heritage is the bedrock of our business, which delivers high levels of predictable cash that covers our dividend into the very long term. And it also generates surplus cash, that we can re-invest into both our Open business and into M&A, to support future dividend increases.

We remain focused on optimising every pound of shareholder capital through a rigorous capital allocation framework that ensures we only invest in growth opportunities that drive real value.

Phoenix continues to offer an attractive dividend, covered into the very long term by today's in-force business. And that now has the potential to grow both organically and inorganically.

New 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 2022 of £1.3-to-£1.4 billion. And the second is a three-year target of £4.0 billion across 2022 to 2024.

In terms of resilience, we will continue to maintain a strong Solvency II surplus through our unique, dynamic hedging approach. This will see us continue to operate within our Solvency II SCCR target range of 140%-to-180% and continue to manage our key individual risk sensitivities on an absolute 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 2022.

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

Looking to growth. The investment we are making into our Open business proposition, along with setting aside around £300 million of capital per annum for new BPA, means that we are now confident of delivering ongoing organic growth, which will more than offset the Heritage run-off, year-after-year. As a result, we expect to prove 'the wedge' again in 2022, by delivering >£800 million of incremental new business long-term cash generation.

Inorganic growth through M&A also remains a key priority for Phoenix. In terms of the market opportunity, we believe that the c.£480 billion UK Heritage market is split between a small number of large deals and a larger number of small-to-mid sized deals. We stand ready to do our next deal, enabled by our scalable platforms, and our £1.3 billion of available firepower.

I look forward to an exciting year in 2022 as we continue to deliver on our purpose and our strategy.

Rakesh Thakrar
Group Chief Financial Officer

2022 targets

Cash

- Deliver £1.3–1.4 billion of cash generation in 2022
- Deliver £4.0 billion of cash generation across 2022–24

Resilience

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

Growth

- Prove 'the wedge' again with new business long-term cash generation >£800 million
- Complete value accretive M&A

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.

Key stakeholder groups		
Customers	**Suppliers**	**Colleagues**
Phoenix has c.13 million customers and manages c.£310 billion of assets. We offer a broad range of long-term savings and retirement products to support people across the entire 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 8,045 colleagues based across the UK, Ireland and Germany. Our operational sites include London, Wythall, Edinburgh, Telford, Hitchin, Norwich, Bristol, Dublin and Frankfurt.**
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 helps them to make better financial decisions • Deliver support at times of vulnerability	• 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 brand 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 • Having opportunities for personal and career development • Being appropriately recognised and rewarded for performance • Engaging in effective two-way feedback
How we engage		
• We engage with our customers through a variety of channels and are adapting our service and product propositions to help more customers on their journey to and through retirement • We continuously seek new ways to better support vulnerable customers • We conduct direct customer research and regularly collate feedback on how we can improve performance • We offer an increased range of sustainable investment funds and are developing innovative customer solutions with sustainability at their core	• We maintain an active dialogue with our suppliers and partners and develop mutually beneficial partnerships • Our Supplier Code of Conduct guides how we engage with our suppliers and partners • In 2021, we rolled out a set of sustainable supply chain standards to our key suppliers, who represent approximately 80% of our spend • We joined the ABI Sustainable Supply Chain Working Group, the CDP Supplier Survey and Sustainable Markets Initiative Sustainable Supply Chain Pledge	• We are embedding 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 advisory forum, colleague representation groups, colleague-led networks and Phoenix Together events
Outcomes of engagement		
• We sustained our high customer satisfaction scores of 92% for Combined Group telephony and 95% for Standard Life digital journeys, exceeding our 2021 targets of 90% and 92% respectively • In 2021, we continued to realise increases in digital adoption across the Group and launched Digital Essentials, a digital literacy initiative to improve customers' confidence to embrace digital options • Our new vulnerable customer e-learning offering won 'Best Customer and Employee Engagement Programme' at the 2021 Engage Awards and has been shortlisted in the 2021 British Quality Foundation UK Excellence Awards for 'Excellence in People Development and Engagement'	• We issued an Open letter to c.1,500 suppliers asking all existing partners and suppliers to set clear sustainability targets for their businesses that are aligned with Phoenix's goals of being net zero carbon in our own operations by 2025 • 2021 activity has focused on improving our systems to enable us to pay 95% of our suppliers within 60 days • Over 80% of our key suppliers set a carbon reduction target • 96% of key suppliers published a Modern Slavery Statement	• We are embedding an enhanced people strategy aligned to our vision of becoming the best place colleagues have ever worked • We are undertaking initiatives to progress our Diversity, Equity & Inclusion strategy which will help us foster a more diverse and inclusive culture • We have enhanced access to mental health & wellbeing tools and resources across the Group • We are investing in the latest technology to support an inclusive hybrid working model • In 2021, we ranked 41st on the Social Mobility index and were voted a UK top employer for the 10th consecutive year
Read more		
On pages 22 to 25 In our 2021 Sustainability Report on pages 28–36 www.standardlife.co.uk www.phoenixlife.co.uk www.reassure.co.uk www.sunlife.co.uk	In our 2021 Sustainability Report on pages 49–50 Our website: www.thephoenixgroup.com/our-suppliers	On pages 20 to 21 In our 2021 Sustainability Report on pages 41-45 Our website: www.thephoenixgroup.com/corporateresponsibility

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 79 to 80 of the Corporate Governance Report. →

Community	Investors	Government, trade bodies and regulators
We are committed to making a difference in the communities in which we are based, interacting with schools, charities, community groups and through our direct investments.	**We maintain an active dialogue with our financial audiences who include 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.**
• 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	• Receiving regular updates on the Group's strategy, operations and performance • Clearly communicating our investment proposition to enable investors to appropriately evaluate Phoenix Group as an investment • A named and clear point of contact for queries, with quick responses to questions • Regular engagement on business performance and governance matters	• 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
• 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	• Through a comprehensive communications and engagement programme, which includes investor roadshows, results presentations and conferences • We conducted 255 investor interactions through primarily virtual meetings with shareholders, debt investors, financial analysts and also attended numerous conferences • We conducted a comprehensive investor consultation in June 2021 the findings of which were presented to the Board and ExCo • The Chairman held a stewardship roadshow in January 2022 with our major institutional investors	• Through a comprehensive and robust programme of proactive engagement across all regulators, which is coordinated through our centralised Regulatory Relationships Team • Andy Briggs, Group CEO, is Chair of the ABI Climate Change Board Committee, co-chairs an employer trade organisation roundtable with the Minister for Employment and sits on a number of other industry forums • Andy Curran, CEO Savings and Retirement UK & Europe, is chair of the ABI's Long-Term Savings Committee, and also sits on the ABI Board
• Ongoing investment into our UK cities and infrastructure to promote sustainable communities – £542 million invested in social housing, £220 million in renewable energy and £168 million in other sustainability assets • £1 million donated to registered charities • We committed to supporting the Government's Kickstart initiative to offer six-month placements paying the Real Living Wage • During the year, colleagues have volunteered c.2,650 hours to support our communities	• Ongoing engagement enables a two-way dialogue between Phoenix and its investors, ensuring a good understanding of the company strategy in the market and investor feedback to be considered in strategic decision-making • The directors recommended the Group's first ever organic dividend increase of 3% resulting in a total 2021 dividend of 48.9p • The Group maintained its Fitch Insurer Financial Strength Ratings of A+ and increased several ESG ratings during the year	• Our regulated subsidiaries have approved capital policies for distributions which protect our customers • We obtained the approval of the PRA for the harmonisation of the legacy Phoenix Life and Standard Life Assurance internal models which was the first of its kind in the UK • Facilitation of our Bulk-Purchase-Annuity growth ambitions, through engagement with regulators on deals completed throughout the year • We have taken a lead role in supporting the Pensions Scams Industry Group to prevent instances of pension fraud
On pages 26 to 27 In our 2021 Sustainability Report on pages 51-53	On our website: www.thephoenixgroup.com/investor-relations	In our 2021 Sustainability Report on pages 55–59 On our website: www.thephoenixgroup.com/corporateresponsibility

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 wellbeing 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 operations will 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, our 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 Wellbeing 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[1]:

All colleagues	Female	4,146	52%
	Male	3,899	48%
Board members	Female	4	33%
	Male	8	67%
Executive Committee[2] ('ExCo')	Female	2	20%
	Male	8	80%
ExCo[3], their direct reports & subsidiary directors	Female	38	47%
	Male	43	53%
Senior management[4] and their direct reports	Female	43	46%
	Male	51	54%

1 These figures are provided as required by the Companies Act 2006 s414C(8)(i)–(iii) and provision 23 of the UK Corporate Governance Code
2 Figures exclude Andy Briggs and Rakesh Thakrar
3 Figures exclude Andy Briggs and Rakesh Thakrar, and include Group Company Secretary Gerald Watson
4 The figures include Andy Briggs, Rakesh Thakrar and the Group Company Secretary, Gerald Watson as required by provision 23 of the UK Corporate Governance Code

Due diligence

Environment

Andy Briggs, the Group's Chief Executive Officer, is responsible for the embedding of sustainability within Phoenix 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 that it remains relevant and appropriate. We are committed to working with our key suppliers to develop best practice carbon management, including net zero targets, and robust waste minimisation including reduction of single-use plastic strategies.

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 onsite 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 wellbeing.

We were one of the first companies to sign the Government's Women in Finance Charter.

Outcomes

Environment

Read more about our net zero and climate-related reporting commitments and KPIs on pages 26-27, and our sustainability actions in the 2021 Sustainability Report. Our GHG emissions and energy consumption disclosure can be found on pages 48-53.

Colleagues

Other relevant colleague engagement, Diversity and Inclusion data can be found on pages 20-21 as well as in our 2021 Sustainability Report.

For further information

Environment

- Group environmental strategy: https://www.thephoenixgroup.com/sustainability/environment
- Group environmental policy: https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/sustainability-and-responsibility/environment/2021-environmental-policy.pdf

Colleagues

- Health and Wellbeing approach: https://www.thephoenixgroup.com/sustainability/people-and-culture/wellbeing
- Health and Wellbeing Statement: https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/sustainability-and-responsibility/people-and-culture/Wellbeing/health-and-wellbeing-statement-2021.pdf
- Diversity and Inclusion Strategy: https://www.thephoenixgroup.com/sustainability/people-and-culture/diversity-and-inclusion
- HR Frameworks: https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/sustainability-and-responsibility/people-and-culture/workplace-metrics/employment-equal-opp-diversity-recruitment-learning-dev-frameworks.pdf

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 58 to 65. →

Social and community

Customers
The Group's Customer Treatment Risk policy covers risks arising from the design or management of products, or from the failure to meet or exceed reasonable customer expectations, taking account of regulatory requirements.

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.

Communities
Our community engagement programme aims to address pressing societal issues and make a positive and lasting difference within our local communities where we operate. Colleagues Group-wide are entitled to take two days for individual volunteering and a further one day with their team. In addition, we offer a range of ways for colleagues to donate to registered charities across the UK and Europe. Colleagues can support our four charitable partners or 'give back' through payroll giving schemes, personal fundraising or straight-forward donations to any charity of their choice.

Our Data Protection Officer monitors compliance with the GDPR and DPA 2018, providing advice on the Group's data privacy obligations and acting as the point of contact for data subjects and regulatory authorities. The Data Protection Officer owns the Group Privacy policy and Data Protection Risk policy and maintains oversight of ongoing privacy compliance. Security controls to protect the Group from cyber-related incidents have also been deployed and a dedicated security operations team responds to emerging cyber threats. The Group has had no significant cyber-related incidents over the year.

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. In December 2021, we accelerated our expectations of all 1,500 partners and suppliers and published our Supplier Open Letter which set out our ESG requirements.

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

Information on relevant supply chain metrics such as engagement on climate change and communities metrics including donations can be found in our 2021 Sustainability Report on pages 49-53 and 64-66.

- Privacy policy: https://www.thephoenixgroup.com/site-services/privacy
- Supplier Code of Conduct: https://www.thephoenixgroup.com/sustainability/working-responsibly-suppliers

Human rights

At Phoenix Group, we recognise that modern slavery and human rights violations exist in all stages of the supply chain, including the manufacturing of goods such as hardware for mobile phones or cleaning services in office buildings. We recognise the challenges of tackling these critical issues and are continuously working with our suppliers to improve practises, offer training and raise awareness.

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

We have identified Human Rights as one of three key stewardship priorities for our dialogue with investee companies and asset managers. We joined the PRI Advisory Group on Human Rights and Social issues to help shape a global collaboration on the topic and integrated more human rights questions in our due diligence process to monitor and appoint asset managers.

In 2022, we will be rolling out modern slavery training to our commercial partnerships function including our procurement colleagues and supplier relationship managers throughout our business.

As a first step on the continuous journey to tackling modern slavery and human rights violations we commenced an independent ESG risk assessment to determine high risk areas. Impacted suppliers will be informed in the second half of 2022 and required to meet our Sustainable Supply Chain Standards.

We've identified Human Rights as one of three key stewardship priorities for our dialogue with investee companies and asset managers. We have also integrated more human rights questions in our due diligence process to monitor and appoint asset managers.

During 2021, the Group effectively resolved all colleague disputes and as a result has not been subject to any adverse Employment Tribunals judgements or awards.

Our human rights/modern slavery disclosures can be found in our Sustainability Report.

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

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.
- 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.

In 2021, we have adopted a Group Stewardship Policy which details our stewardship approach.

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.

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.

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.

- Anti-bribery statement: https://www.thephoenixgroup.com/about-us/governance

Our sustainability strategy

We believe that Phoenix Group has a significant opportunity to make a difference in creating the sustainable future we all want. That is why we have set a comprehensive sustainability strategy which is fully aligned to our purpose.

Our strategy has three focus areas:

Investing in a sustainable future

Our customers and shareholders trust us to reflect their priorities in how we invest. That means keeping their money safe and providing them with strong long-term financial returns, while using our scale to play our part in delivering a secure and sustainable future. That is why we are integrating environmental, social and governance issues into our investment decision making process. By investing sustainably we can help deliver the future we all want.

Integrating sustainability considerations into investment decision making
We are integrating ESG considerations into our investment decision making, collaborating closely with our asset management partners and embedding best in class data analytics capability.

Investing responsibly
We are redesigning our portfolios in line with our sustainability goals, driving real world impact on key issues through the active ownership of our investments and are committed to putting our long-term money to work today to build a better future for all through increasing our investment in sustainable assets.

Tracking our decarbonisation goals
We are measuring the carbon footprint of our investments and are aligning our portfolio to decarbonisation pathways in line with global temperature goals.

Engaging to drive system change
We are using our insight and knowledge to lead the debate around key challenges: working with government, non-governmental organisations, and across our industry and the economy to remove the barriers to net zero investment and define best practice.

You can find out more about our new sustainability strategy and ambitious targets in our 2021 Sustainability Report →

View our Sustainability Report 2021 thephoenixgroup.com/sustainability/sustainability-report →

Scan the code to watch the video from our CEO introducing our sustainability strategy →

Engaging people in better financial futures

We are committed to meeting our customers' needs through innovative product and fund solutions, and engaging them in their financial futures by providing the right education, tools and guidance that promote financial inclusion. There are a number of barriers that need to be overcome to help close the pension savings gap. We therefore want to drive a national conversation on better longer lives through Phoenix Insights and are advocating for the societal change that will achieve this.

Empowering better financial decision making

We are supporting our customers to make good decisions about their financial futures by providing education and guidance tools. We recognise customers have different needs and are therefore implementing financial inclusion initiatives.

Enhancing our fund and product offering

We are responding to our customers' demands to offer financially attractive sustainable products. We are developing a portfolio of products that offer customers flexibility in their retirement.

Creating a national conversation

We have established our new research centre, Phoenix Insights, to transform the way society responds to the possibilities of longer lives. Our ambition is to take the opportunities that longevity presents to the forefront of public debate and the political agenda.

Advocating for change

We have a critical role to play in advocating for the changes to unlock the barriers that limit people's ability to provide for their financial futures. By listening to our customers, we understand the social issues that impact them the most and are collaborating with industry, partners and government to deliver change.

Building a leading responsible business

We are committed to embedding sustainable best practice as the foundation that enables us to achieve our purpose of helping people secure a life of possibilities. It is important that we adopt the highest sustainability standards across our business, and lead by example for the stakeholders we engage with to drive real world change and deliver positive impact.

Investing in our people and culture

Our purpose of helping people secure a life of possibilities doesn't just apply to our customers and society; it applies to our colleagues too. Our vision is to make Phoenix the best place any of us have ever worked and provide every colleague with endless possibilities, support and positive experiences throughout their time at Phoenix.

Reducing the environmental impact of our operations

We are reducing the impact of our operations, and are making changes in the way we work to achieve a net zero carbon operational footprint by 2025. We are committed to promoting good environmental practice.

Building a sustainable supply chain

We are working with our partners and suppliers who share our commitment to sustainability. We are collaborating with them to adopt our stretching supply chain standards across climate change, modern slavery and human rights and health and safety.

Supporting our communities

We are aligning our community engagement programme with our purpose and aim to address pressing societal issues and make a positive and lasting difference within the communities where we operate.

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 1 January 2021 to 31 December 2021, and the 2020 comparative year.

Introduction

Emissions disclosed here relate to energy consumption, facilities, activities and property investment portfolios 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 Phoenix Group is responsible and include as applicable: combustion of any fuel and operation of its facilities; fugitive emissions released from refrigerants purchased (based on refrigerant top-ups); and annual emissions from the purchase of electricity, heat, steam or cooling by Phoenix Group for its own use. In addition to reporting estimated employee homeworking emissions (using the EcoAct Homeworking Emissions Whitepaper 2020) as part of Scope 3 emissions, Phoenix Group has also chosen to estimate employee commuting, as well as reporting on business travel from other third party owned/operated sources, including air, taxi and rail travel, to provide a complete picture on this category of emissions.

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

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

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

Energy consumption and greenhouse gas emissions

Table 1a. Absolute energy consumption in GWH

Consumption, GWh[a] from:	2021	2020
Building Electricity	45.4	41.9
Building Natural Gas	31.0	24.1
Business Travel	0.1[b]	0.4[c]
Homeworking Electricity	1.7	1.3
Homeworking Natural Gas	26.1	20.2
Total consumption	104.3	87.9

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) in 2021 does not include air, taxi or rail due to the spend-based methodology and lack of applicable conversion factors for this data, however GHG emissions from these sources are still included in Table 1b.

c Business travel (GWh) in 2020 only included travel in employee/company-owned cars. In 2021 this has been expanded above the mandatory requirements to include all modes of travel (including air, taxi and rail).

Table 1b. Absolute GHG emissions in tonnes of CO_2e

Emissions, tonnes of CO_2e, from:	2021 (market-based)	2021 (location-based)	2020 (market-based)	2020 (location-based)
Scope 1—Combustion of fuels, business travel (in company owned and operated vehicles), and fugitive emissions of refrigerant gases	4,812	4,812	4,913	4,913
Scope 2—Electricity purchased for landlord shared services and own use (purchase of heat, steam and cooling not applicable)	21	8,342	3,266	10,065
Scopes 1 + 2—Mandatory carbon footprint disclosure	**4,833**	**13,154**	**8,178**	**14,978**
Scope 3—Category 3: Fuel and Energy Related Activities (T&D)	1	722	1,040[d]	3,129[d]
Scope 3—Category 6: Business Travel	356	356		
Scope 3— Category 8: Upstream Leased Assets	2,051	1,765		
Scope 3—Category 13: Downstream Leased Assets	312	2,723		
Scope 3—Category 7: Employee Commuting (incl. Homeworking Emissions)	5,487	5,294	4,272[e]	4,129[e]
Scopes 1 + 2 + 3—Voluntary carbon footprint	**13,040**	**24,014**	**13,490**	**22,236**
Carbon Offsets Purchased	**2,453**		**N/A**	

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 –2021 factors will not be published until late 2022. Therefore all 2020 consumption data are converted using the factors actually arising in 2017 (except car travel which uses DEFRA factors as published in 2021.

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

Commentary on Phoenix Group's performance

Overall, in 2021 there was 76.5 GWh of Phoenix Group global energy consumption (building energy and business travel in either employees' cars or company cars) as shown in Table 1a, 97% of which was from UK operations. This is an increase on the 66.4 GWh of global energy consumption reported in 2020. Separately, in 2021 27.8 GWh has been estimated and can be attributed to employee homeworking energy consumption, of which 92% occurred within the UK. In GHG emissions terms (Scopes 1+2+3), 94% of Phoenix Group emissions occurred at UK sites.

In 2021, amidst a dynamic, continually growing workforce and portfolio, Phoenix Group's absolute emissions (location-based Scope 1+2) have decreased by 12%. This reduction is largely attributed to the ongoing impacts of COVID-19, resulting in continued hybrid working. This has caused Phoenix Group to reassess its office utilisation and consolidate buildings to improve occupancy and remove less efficient assets in which there is lower control. This is also reflected in the intensity metrics, expressing GHG emissions in kilogrammes per floor area and full-time equivalent employee (FTE) in Table 2. Importantly, we achieved a 34% year-on-year reduction in Scope 1 & 2 emissions per FTE intensity, on our path towards being net zero in our own operations by 2025.

Approximately 89% of all electricity consumption, and 100% within Phoenix Group's occupied premises, is from certified renewable sources. This clarifies why the market-based emissions for Scope 2 are significantly less than the location-based emissions as shown in Table 1b. This is an increase in the percentage of renewable energy procured compared to 2020, significantly reducing the proportion of market-based emissions compared to location-based emissions in 2021. Additionally, Phoenix is purchasing gold-standard certified carbon offsets for natural gas consumed in its owned and occupied assets, constituting 2,453 tCO_2e in 2021, recognising the environmental impact of this emissions source which is challenging to reduce.

Energy intensity metrics

Phoenix Group's chosen operational intensity metrics detail GHG emissions per occupied floor area (m^2) and per FTE in occupied premises (Table 2). Emissions from occupied premises only considers buildings where emissions are considered Scope 1 and 2 and where 12 months of data is available in the 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 occupied floor area and FTEs respectively were summed and divided by the total Scope 1 and 2 emissions for these buildings.

The intensity for both m^2 and FTE has decreased from 2020 to 2021, largely driven by Phoenix's ongoing efforts to improve energy efficiency and reduce its impact on the environment through its operations, as described below in the Energy Efficiency Action section. Additionally, a market-based intensity has also now been disclosed to highlight the efforts made to procure renewable energy across the portfolio (this intensity does not include any purchased carbon offsets).

Table 2. Phoenix Group's chosen intensity measurement

Emissions (kilogrammes and tonnes) of CO_2e per chosen intensity metric:	2021 (market-based)	2021 (location-based)	2020 (market-based)	2020 (location-based)
Scope 1+2 emissions from occupied premises per floor area (kg CO_2e/m^2)	30	62 kg CO_2e/m^2	N/A[f]	80 kg CO_2e/m^2
Scope 1+2 emissions from occupied premises per full-time equivalent employee (tCO_2e/FTE)	0.38	0.81 tonnes CO_2e/FTE	N/A[f]	1.23 tonnes CO_2e/FTE

d Scope 3 emissions were reported as an aggregated figure in 2020 (except for estimated homeworking emissions) and did not include employee commuting or business travel outside of employee-owned cars, therefore this has not been separated for consistency.

e Scope 3 emissions for Category 7 only included estimated emissions from employee homeworking in 2020, and not employee commuting estimates, which have also been included in the 2021 figure.

f Market-based intensity metrics were not reported in Phoenix Group's 2020 SECR statement as they are not a mandatory requirement, and are therefore not retrospectively disclosed.

Energy efficiency action (climate change actions)

In 2020, Phoenix Group set out its ambition to eliminate emissions from its own operations (Scope 1 and 2, and Scope 3 (GHG Protocol Category 6: Business Travel)) by 2025. It is understood that this represents a relatively small share of the value chain emissions; however, it forms a first step on the overall journey to the 1.5ºC aligned climate change target. These are also the emissions over which Phoenix Group have the most direct control. The 100% renewable grid electricity target was achieved in 2020, and the focus is now on the transition to renewable/non fossil fuel heat sources, increasing energy efficiency, and reducing refrigerant emissions.

During 2021, Phoenix Group aligned its capital expenditure programme to its net zero target, by re-prioritising expenditure based on the potential carbon impact of the projects considered. A select and non exhaustive list of the most impactful projects carried out is listed below. Many of these projects are carried out in offices that need to stay operational throughout the year and are phased over a number of years to minimise disruption to the occupants. As such, the energy and carbon savings identified may fluctuate depending on the extent of works carried out in a particular year.

Key energy efficiency activities in 2021 were:

- A significant project at the Wythall office to replace roof glazing with photovoltaic glass (the largest of its kind in Europe) has been initiated and will span three years. This will provide renewable electricity as well as significant improvements to energy efficiency and thermal and visual comfort for the building
- Office building consolidation plans from multiple to single offices in London and Dublin
- LED lighting roll out – high-efficiency lighting programmes across applicable buildings, ensuring that any new lighting installations are the most energy efficient (e.g. Old Bailey, London)
- Building and ventilation control systems upgrades to allow for greater flexibility and operational efficiency (e.g. Wythall, Standard Life House, Edinburgh)
- Additional electrical vehicle charging points installed across many sites
- Roof insulation materials have been upgraded in three offices (Wythall, Basingstoke and Hitchin)
- Electric 'point of use' water heaters have replaced gas storage systems across many offices
- Half-hourly data (HHD) gas meters have been installed to allow better understanding of heating energy requirements, and to measure and report accurate consumption
- Sub-metering installations have been carried out to allow for greater data granularity and management going forwards
- Boilers have been upgraded or replaced as necessary at the Bournemouth site
- Heat pumps, electric boilers or hybrid combinations are being considered (to replace gas boilers) in applicable properties
- Chillers have been replaced with modern, less intensive equivalents
- Adoption of a more robust travel policy, whereby the emphasis is on trip avoidance and carbon efficiency

Going forward and in line with Phoenix Group's Eliminate-Reduce-Substitute-Compensate model, applicable opportunities within operations will be assessed to manage the carbon footprint. For example, continually considering building consolidation opportunities by improving the effectiveness of the current use of space. A number of new technologies are being reviewed to further reduce business travel by facilitating working and better remote collaborations between employees.

Throughout 2022, Phoenix Group will be continuing its extensive carbon reduction actions with the view of minimising carbon emissions. This includes building improvement works to include efficiency measures, such as improved controls, more efficient equipment, and improvement of building fabric where necessary.

New roof at Wythall office allows for greater flexibility, power generation and operational efficiency

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

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

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 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 about the Group's remuneration framework can be found on pages 106 to 136 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 Managers 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 groups also have specific responsibilities for climate-related activities, including:

Executive Sustainability Committee – comprised of key executives who meet at least five 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.

TCFD Steering Committee – comprised of key executives with functional climate responsibilities who meet monthly to oversee the TCFD implementation programme, including progress against the recommendations and the publication of the annual disclosure.

Climate Report – prepared in line with the recommendations 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 2021, we have made significant progress in implementing and embedding all of the recommendations of the taskforce and complying with the requirements of the PRA's Supervisory Statement 3/19[1]. 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 the recommendations of the TCFD framework, the progress we have made during 2021 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.

1 PRA's Supervisory Statement on enhancing banks' and insurers' approaches to managing the financial risks from climate change

Scan the code to access detailed information about our approach to climate change in our first standalone Climate Report →

Both the Executive Sustainability Committee and TCFD Steering Committee indirectly support the Board Committees through updates on progress against strategy, KPIs and targets.

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

These management groups are not 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 2021 Sustainability Strategy, including key climate-related targets to decarbonise our investment portfolio. 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 2022 targets (see the Directors' remuneration report on pages 106 to 136). Phoenix has continued to upskill the Board, Executive and the wider Group through tailored education sessions on sustainability and climate change.

In 2021, the Group Board formally met eight times where it considered climate change and TCFD on seven occasions (including education sessions and updates on TCFD implementation).

Looking ahead

Phoenix will continue to enhance climate related knowledge and understanding across the business through further Board and Management education sessions and implementation of a Group-wide climate change education programme. Ongoing enhancement of the governance framework and embedding of climate within decision making across the Group will continue, ensuring our governance is future fit.

Strategy

In 2021, we completed a strategic implication assessment of climate-related risks and opportunities to help inform the development of our climate 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.

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 providing savings and insurance products that can enable our policyholders to direct finance to help accelerate the transition to a low carbon economy and in 2021, we transitioned the default fund of our workplace Master Trust to a climate aware ESG fund.

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.

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.

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.

During the year we successfully completed Round 1 of the Bank of England's Climate Biennial Exploratory Scenario ('CBES') exercise, which is designed to assess the financial risks arising from climate change, and we completed a pilot quantitative climate scenario exercise to further develop our methodology and modelling capabilities and assess the resilience of our climate strategy. We have used three climate scenarios (early action, late action and no additional action) 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 (which assumes a fixed balance sheet with no management actions) confirms the need to transition our investment portfolio to align to a net zero position at pace. This action will be delivered through our investment transition plan and will mitigate the Group's exposure to the transition risk that most clearly arises in the early and late action scenarios. 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. In 2022 an independent assessment of the climate change risk in our supply chain will be undertaken to ensure we work with our high risk suppliers to meet our standards.

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 PRI

2021

- Achieved 34% reduction in operational emissions intensity from 2020
- Published 2nd TCFD report
- Became member of Net Zero Asset Owners Alliance
- First life insurer to sign up to PCAF UK
- 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 the Bank of England's CBES exercise
- Strategic partner for Green Horizon Summit at COP 26
- 'B' CDP grade awarded

2022 and beyond

- Publish first standalone Climate report
- Complete Round 2 of CBES exercise
- Roll out decarbonisation investment strategy, increase stewardship activity and increase sustainable investments
- Establish supply chain emissions baseline and roll out decarbonisation strategy
- SBTi validation of targets
- Develop and publish net zero transition plan capturing investments, operations and supply chain
- Aim to meet all interim net zero targets
- Aim to be a Net Zero Group by 2050

We will further develop our internal scenario analysis process, addressing known limitations and reflecting evolving market best practice. This will include making allowance for the expected impact of the Group's action to reduce the carbon emissions of its investment portfolio, in line with our net zero commitment and enhancing our analysis of physical risks.

Risk management

Climate change was identified as an emerging risk in 2018 and subsequently added as a principal risk by the Board in 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 54.

In 2021, we have continued to enhance our assessment of climate-related risks across a number of dimensions of the RMF. For example, we have undertaken a quantitative assessment of the financial climate change risks impacting Phoenix's business, confirming that the Group is most exposed to transition risk (compared to physical risk). The relative significance of climate change-related risks has been determined by a combination of quantitative and qualitative assessment. More detailed climate change risk appetite statements have been agreed by the Board and we have completed the work to fully embed material climate-related risks into all Group risk policies and supporting processes such as minimum control standards. A number of internal climate-related metrics have also been developed to improve the Group's understanding and management of these climate risks.

Looking ahead

We aim to enhance the data strategy and model for collecting and reporting on climate change risk and further develop our internal climate change risk reporting, reflecting the evolution of market best practice and tracking the progress made in meeting interim net zero targets. Ongoing review and enhancement of the RMF will continue as further information is developed, including through scenario analysis work.

Metrics and targets

We measure our operational carbon footprint (Scopes 1, 2 and selected categories in Scope 3), and Scope 1 and 2 emissions intensity per floor area and full time employee. The details of which are included with the Group's Streamlined Energy and Carbon Reporting (SECR) statement on page 48.

For the investment portfolio, we measure the absolute emissions and emissions intensity for our listed asset sub-portfolio as well as the percentage of this portfolio exposed to high-carbon risk sectors and aligned with science-based targets.

Using a baseline from 2019, our Scope 3 investment portfolio economic emissions intensity for the listed asset sub-portfolio was 105 tCO_2e per £1 million invested and the revenue emissions intensity was 158 tCO_2e per $1 million revenue. This gives a carbon footprint of 15.0 million tonnes of CO_2 emissions for the listed asset portfolio.

The four high transition risk sectors (energy, utilities, materials and industrials) only account for 23% of the listed portfolio AUM, however they account for 87% of all listed portfolio emissions. As at year end 2019, over a quarter of the listed portfolio was invested in counterparties that had committed to set or already set approved science-based targets.

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 and 2 and selected Scope 3) 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 investments by 2025 (this will cover £160 billion of listed equity and credit assets where Phoenix can exercise control and influence)
- a 50% reduction in the carbon emission intensity of investments by 2030 (this will cover £250 billion of listed equity and credit assets where Phoenix can exercise control and influence)
- to be net zero by 2050.

Looking ahead

We aim to measure Scope 3 financed emissions for the remaining asset classes in the investment portfolio, starting with real estate and sovereign debt in 2022. As data quality improves, we want to broaden the scope to capture the Scope 3 emissions of underlying companies. We will be developing science-based targets and further developing operational and investment metrics with a focus on physical risk. We will be establishing our supply chain emissions baseline and ensuring and that all suppliers are on track to set a carbon reduction target. In line with recent announcements, we will be developing and publishing our Net Zero Transition Plan.

The Group's risk management framework

The Group's Risk Management Framework ('RMF') embeds proactive and effective risk management. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The 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 Group successfully completed the integration and alignment of ReAssure plc to the RMF in September 2021, in line with expected timescales. This has enhanced the consistency of oversight of risks across the enlarged Group.

The Group's RMF is aligned to the principles of ISO31000, the International Organisation of Standardisations risk management guidelines.

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

Risk Management Framework

Risk environment

The overall risk environment remains uncertain and is dominated by the developing conflict in Ukraine and COVID-19 implications; both have the potential to impact the economy, our customers and our colleagues.

The conflict in Ukraine, and the introduction of sanctions against Russia and Belarus, is being closely monitored by the Group, particularly in relation to customer, asset and operational implications; further detail can be found in the Principal Risks section below. The conflict has increased cyber-attack threat levels from a State actor, particularly on supply chains and the wider financial services sector. The Group's cyber controls are designed and maintained to repel the full range of cyber-attack scenarios and have been enhanced in areas over 2021.

Whilst many potential operational impacts of COVID-19 can now be effectively mitigated, and the COVID-19 vaccination programme has been successful, there remains potential for vaccine resistant mutations which could impact business operations and the wider economy. To date there has been minimal disruption to the Group's operations. The Group's colleagues, and those of our outsourcers, can work from home and were encouraged to do so to mitigate risk. The application of the Group's Business Continuity Framework continues to work effectively. Regular engagement across the Group's in-house and outsourced operations is used to monitor the ongoing position; this has supported any prioritisation decisions.

The Group considers inflation a risk over the short to medium-term with a shortage of labour in key industries and ongoing supply chain issues increasing costs. The Bank of England is faced with a balancing act of managing inflation and aiding the post-COVID recovery. Unexpected moves in inflation or interest rates are likely to impact asset values. However, the Group's strategy involves hedging the major market risks and in 2021 the Group's Stress and Scenario Testing Programme demonstrated the resilience of its balance sheet to such market stresses.

Attracting and retaining a diverse, engaged and skilled workforce is essential for delivering the Group's strategy. Skills essential to the Group are currently in high-demand in the wider marketplace and recruitment and retention has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Group continues to monitor this closely but remains confident in the attractiveness of its colleague proposition.

The financial and non-financial impacts of climate change present material risks to the Group and its customers. The insurance sector has an instrumental role in the fight against climate change. The Group was an active participant in COP26 and is committed to playing its part in creating a green and sustainable future. The Group's Climate Report and TCFD disclosures in the ARA (pages 51–53) provide an overview of the Group's progress to date and planned future priorities across each of the TCFD focus areas including, developing internal climate risk appetites linked to metrics and targets, embedding climate risk considerations within the Group's RMF and the enhancement of internal climate risk reporting.

The Group's ambitions bring with it a significant change agenda which will have to be managed carefully in order to deliver the Group's five strategic priorities. In 2021 the Group strengthened its Change Management Framework that aims to improve resource management, prioritisation and promotes the delegation of responsibility.

Own risk and solvency assessment ('ORSA')

The Group's ORSA cycle brings together inter-linked risk management, capital and strategic processes. The ORSA plays an important role in supporting strategic decision-making and strategy development at the Group's Boards and risk committees. It provides:

- 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 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 economic environment.

ORSA process cycle

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 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.

Risk culture

Risk culture is the sum of our shared values, behaviours and attitudes towards the risks faced by our 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.

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:

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

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

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

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

Conduct – The Group maintains the highest conduct standards 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 put it right in a fair and prompt manner.

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

Risk universe

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

- strategic risk;
- customer risk;
- financial Soundness risk;
- market risk;
- credit risk;
- insurance risk; and
- operational risk.

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

Risk policies

The Group Risk Policy Framework supports the delivery of the Group's purpose and Enterprise Strategy by establishing the operating principles and expectations for managing the key risks to the Group's business. Each of the risk policies 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;
- the minimum control standards required in order to manage the risk to an acceptable level; and
- the frequency of the control's operation.

Risk policies are mapped to either Level 1 or 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 (e.g. 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.

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

A Group Conduct Risk Framework and Climate Risk Framework overarches 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 in order to manage these risks across the Group.

Governance and organisation

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

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

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

First line: Management

Management of risk is delegated from the Board to the Group Chief Executive Officer, 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.

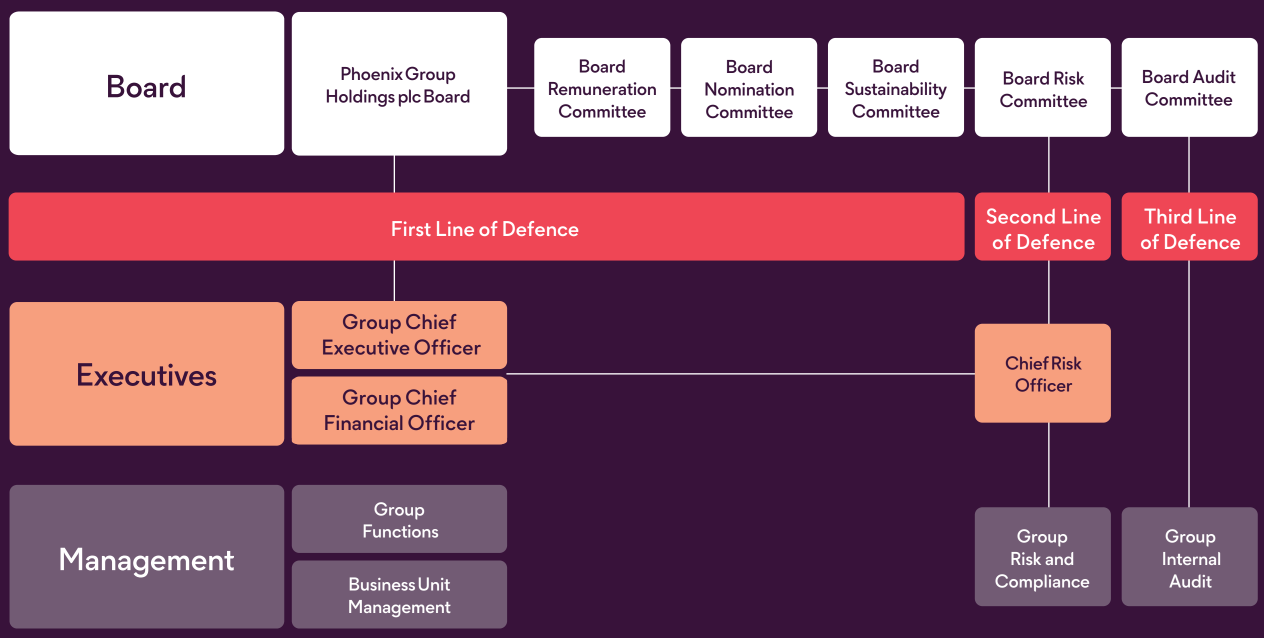
Second line: Risk oversight

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 to the right.

Governance framework



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. 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 potential new risks and opportunities, drawing on the collective expertise and experiences of senior individuals. The Group captures emerging risks and opportunities in a detailed log, examples of these are outlined in the table on page 65.

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.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, 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.

A key milestone in the Standard Life Assurance integration was delivered in September 2021 when the Group received PRA approval for its harmonised Internal Model, bringing together the Internal Models of Standard Life Assurance and Phoenix. Harmonisation brings the Group a material enhancement to its risk management and modelling capabilities; fundamentally underpinning the security of the Group's customers.

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

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 2020 Annual Report and Accounts, published in March 2021.

The Board Risk Committee has carried out a robust assessment of principal risks and emerging risks. As a result of this review, 'Cyber Resilience', which was previously considered under the 'Operational Resilience' principal risk, is now treated as a separate principal risk in its own right. As highlighted in the 2021 Interim Report, this recognises the growing importance of managing Cyber risk to enable the Group to effectively deliver its strategic objectives. 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 Enhance our operating model and culture 3 Grow our business to support both new and existing customers 4 Innovate to provide our customers with better financial futures 5 Invest in a sustainable future

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 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 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. 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	**No change** Significant progress has been made in 2021 on the Standard Life Assurance and ReAssure plc integrations, with further integration of a number of key business areas, including Finance and Actuarial. The Group has also made the strategic decision to re-phase the remaining legacy Standard Life migrations in order to build new capability to support future new business growth, which means the legacy Standard Life migrations will now complete by 2025. A key milestone in the Standard Life Assurance integration was delivered in September 2021 when the Group received PRA approval for its harmonised Internal Model, bringing together the Internal Models of Standard Life Assurance and Phoenix. Harmonisation brings the Group a material enhancement to its risk management and modelling capabilities. This fundamentally underpins the security of the Group's customers. The alignment to and embedding of the Group's Risk Management Framework within ReAssure plc was successfully completed in 2021. The Group's ongoing investment in technology and enhancing the technological infrastructure of the Group is informed by lessons learned from completed integration activities. Investments aim to deliver a stable and scalable environment to deliver market leading migrations and integrations as the Group delivers its strategic objectives through acquisitions.
The Group's strategic partnerships fail to deliver the expected benefits	Strategic partnerships are a core enabler for delivery 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. There is a risk that the Group's strategic partnerships do not deliver the expected benefits. 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. £165 billion of the Group's assets under administration, at January 2022. **TCS:** The Group's enlarged partnership with TCS is expected to support growth plans for the Open business, enabling further market-leading digital and technology capabilities to be developed to support enhanced customer outcomes. **HSBC:** Provides fund accounting services to the Group.	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.	2 3 4	**No change** Whilst the Group has strengthened and simplified its strategic partnerships over 2021, 'No Change' is reflective of the Group's ongoing reliance on its strategic partners to deliver the volume of change needed to deliver the Group's strategic objectives. The Group continues to develop the partnership with TCS to support its strategic deliverables. Both parties have managed the impacts of COVID-19 with actions being taken to protect strategic and BAU activity. Actions include the implementation of hybrid working models and the strengthening of change management and prioritisation processes. The simplified and extended partnership with abrdn plc continues to progress towards the Target Operating Model with key milestones such as the transfer of specialist colleagues back to the Group alongside the purchase of the Standard Life brand from abrdn plc completed in 2021.

Risk management continued

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
Strategic risk (continued)				
The Group fails to deliver long-term growth in its Open business	The Open business has strong foundations and is central to the Group's purpose of helping people secure a life of possibilities. It is also fundamental to the Group's plans of proving 'the wedge' which assumes that Open business growth can offset the run-off from the in-force business and bring sustainability to organic cash generation. Confidence in the Group might be diminished if the Open business fails to deliver against its strategic objectives, particularly as the Group seeks to promote a 'customer obsessed' mind-set underpinned by strong retention and consolidation as customers journey to and through retirement.	The Group's Open Division Business Unit structure brings focus and accountability to its Open ambitions, particularly in key growth areas of Retirement Solutions (including Bulk Purchase Annuities (BPA)) and Pensions and Savings. The Open Division holds an annual strategy setting exercise to consider customer needs, interests of shareholders, the competitive landscape and the Group's overall purpose and objectives. As part of its Annual Operating Plan the Group is committed to making significant investment in its Open business that will include propositions which are driven by customer insight. The Group is established in the BPA market and continues to invest in its operating model to further strengthen its capability to support its growth plans. For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying the Group's rigorous Capital Allocation Framework.	2 3 4	**No change** Long-term cash generation, driven by BPA activity, in the Open business in 2021, offset the run-off of the in-force business for the year. However, 'No Change' reflects that there is still uncertainty (both in internal and external environments) around the delivery of consistent long-term growth. Over 2021 the Group completed BPA transactions with a combined premium of £5.6 billion, more than double the premiums of 2020. This demonstrates the Group has the ability to compete and win in the BPA market. In 2021 the Group purchased the Standard Life brand from abrdn plc. The brand is central to the Group's plans, will elevate its market presence and enhance the Standard Life experience for customers, clients, financial advisers and employee benefit consultants. The Group continues to develop its Workplace propositions under the Standard Life brand and strengthen the Group's position as a leading pensions provider. In addition to the brand purchase, 68 roles in marketing, retail adviser distribution and data were also transferred from abrdn plc, bringing considerable subject matter expertise into the Group and enhancing its Open business capabilities.
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 timeframe assumed in its business plans and may result in the Group being unable to deliver its strategic objectives.	The Group's Change Management Framework was strengthened in 2021 with an enhanced change model, consistent with ensuring empowerment and accountability within Business Units to effectively deliver change. The Group continues to assess the prioritisation of change to ensure there is clear alignment to the Group's strategy. Information setting out the levels of resource demand and supply, both a current and forecast view, will continue to be provided to accountable senior management so that informed decision-making can take place. This aims to ensure all material risks to delivery are appropriately identified, assessed, managed, monitored and reported.	1 2 3 4 5	**No change** In 2022, the Group will continue to manage a significant volume of change, consistent with 2021. A strengthening of the Change Management Framework has been delivered over the last 12 months. Following an external review, the Group has delivered improvements to resource management practices and introduced a new portfolio and hub model to simplify the management of a complex change stack. This promotes the delegation of responsibility; avoiding bottlenecks at senior management.

Strategic priorities: 1 Optimise our in-force business 2 Enhance our operating model and culture 3 Grow our business to support both new and existing customers 4 Innovate to provide our customers with better financial futures 5 Invest in a sustainable future

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 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 market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition, there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to the wider 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 and reputational risks.	A Group-wide project was undertaken to enhance the approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's RMF, to meet the requirements of the PRA Supervisory Statement 3/19 (SS3/19). The Group's disclosures, in line with the Task Force on climate-related Financial Disclosures ('TCFD') are outlined in the Group's Climate Report. The report also includes planned future priorities across each of the TCFD focus areas. Consideration of material climate-related risks has been embedded into the Group's risk policies. The Group's sustainability strategy has continued to evolve to respond to the changing needs of stakeholders, resulting in the Group setting targets to monitor progress towards its sustainability commitments. Further details on the sustainability strategy are available in the Sustainability Report. The Group continues to actively engage with regulators on progress with all climate change and sustainability-related deliverables.	1 2 3 4 5	**No change** A number of positive initiatives are underway to deliver against the Group's Net-Zero targets and social purpose. However, 'No Change' is driven by the Group's recognition that significant work, over a number of years, is required to deliver on these commitments. In 2021 the Group made a commitment to reducing carbon intensity for £250 billion of its investment portfolio by at least 50% by 2030. In addition, an interim de-carbonisation target of a 25% reduction in the carbon emission intensity of its investments by 2025 has been set. The Group has been working with its key partners and suppliers to encourage them to adopt Science Based Targets (SBTi) carbon reduction targets. The TCFD disclosures in the Group's Climate Report provide an overview of progress to date in achieving compliance with SS3/19 and planned future priorities across each of the TCFD focus areas. This includes internal climate risk appetites linked to metrics and targets, further embedding of climate risk considerations within the Group's RMF and enhancement of internal climate risk reporting. The Group has taken an active approach in understanding the requirements to deliver on its social purpose; including the launch of a new think tank, Phoenix Insights.
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 detriment. This could also lead to reputational damage for the Group and/or financial losses. In addition a failure to deliver propositions that meet the evolving needs of 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 Conduct Risk Framework, 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 minimum control standards in place 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.	2 3 4 5	**No change** In 2021, the Group continued to make significant investments in its propositions; launching Investment Pathways and announcing a partnership with Key Group to launch a lifetime mortgage range, supporting customers with the later stages of financial planning. Throughout the pandemic the Group has continued to provide ongoing support to customers, including those most vulnerable, both when paying out on their protection plans and when making decisions about their life savings during this period of uncertainty. As noted in the 2020 Annual Report and Accounts and the 2021 Interim Report, following the acquisition of ReAssure plc the Group completed a Part VII transfer of business acquired from L&G. Customers in this book of business were migrated to the Group's in-house administration platform. Over 2021, the Group monitored the service levels delivered to migrated customers to ensure alignment to internal customer service standards. In light of the situation in Ukraine a review of the legal and regulatory requirements from the sanctions has been performed. The review concluded that , at the time of writing, a low level of risk exists given that the Group has a low volume of customers that reside in Russia and Belarus. In addition, no Russian banks have employer schemes or products with the Group.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 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 to core IT systems and operations. This could occur either in-house or within the Group's primary and downstream outsourcers and includes a range of environmental and climatic factors. The Group regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. The fundamental risk faced when executing migrations is an interruption to the safe, stable and secure customer services delivered by the Group. Any service interruption may result in the Group failing to deliver expected customer outcomes. Regulatory requirements in respect of operational resilience were published in March 2021, together with a timetable to achieve full compliance. 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 where the Regulator determines that the cause was, fully or in part, a breach of existing regulation.	The Group has established an Operational Resilience Framework that identifies important business services, accountability, sets tolerances for disruption and describes the processes that will deliver the required level of resilience. This 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. 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 outsourcer's implemented a hybrid working model significantly reducing exposure to a number of physical risks caused by COVID-19.	1 2 3	**No change** This principal risk was rated as 'Heightened' in the 2020 Annual Report and Accounts; there has been no change to the position since. There remain two core drivers for this risk assessment: COVID-19 uncertainty and strategic customer transformation. 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, on a temporary or more permanent basis is more challenging to resolve in the short-term as there remains uncertainty around the efficacy of vaccines against future COVID-19 mutations. The Group aims to deliver considerable customer transformation activity in 2022, consistent with the quantum of change in 2021. 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 resilience of our customer service.
The Group is impacted by significant changes in the regulatory, legislative or political environment	Changes in regulation could lead to non-compliance with new requirements that could impact the Group's fair treatment of its customers. These could require changes to working practices and have an adverse impact on resources and 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** There is uncertainty around future Solvency II reforms; expected to be proposed by HM Treasury in April 2022. The scope is expected to include a 60–70% reduction to the Risk Margin, a review of the Fundamental Spread component of the Matching Adjustment and a relaxation of Matching Adjustment eligibility rules. Detail on potential reforms to Solvency Capital Requirement has not yet featured. While there are potential upsides for the Group (including broader investment opportunities to advance the Group's growth and sustainability objectives), there remains significant uncertainty as to what the final package of reforms will look like, how it will impact the Group, and the timing for implementation. Broader financial services regulation is also being consulted on by HM Treasury, which aims to establish how much rule-making power will pass from legislation to the UK's regulators. The FCA has proposed a new Consumer Duty, designed to give a higher level of protection to consumers. The aim is to drive culture change and instil consumer trust, an aim welcomed by the Group. The FCA is consulting on draft rules and plans to publish final rules by 31 July 2022. An internal project has been initiated to support this work.

Strategic priorities: 1 Optimise our in-force business; 2 Enhance our operating model and culture; 3 Grow our business to support both new and existing customers; 4 Innovate to provide our customers with better financial futures; 5 Invest in a sustainable future

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 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 future 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 Assessments. The Group continues to assess and utilise 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. Comprehensive outsourced service provider and third party oversight and assurance processes are in place. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.	1 2	**New principal risk** **Heightened** Cyber Resilience was previously a component considered under the 'Operational Resilience' principal risk. The key driver for the heightened rating is the conflict in Ukraine which has increased cyber threat levels and the likelihood of a cyber-attack from a State actor, particularly on supply chains and the wider Financial Services industry which the Group relies upon. The Group regularly monitors National Cyber Security Centre guidance. 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 State level cyber-attack. In H2 2021 the Group continued to strengthen its cyber controls, including in areas such as Detect and Respond capabilities and infrastructure scanning capabilities.
The Group fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy	Delivery of the Group's strategy is dependent on a talented, diverse and engaged workforce. Periods of prolonged uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver the Group's strategy. This risk is inherent in the Group's business model given the nature of acquisition activity and specialist risk management skillsets. Potential areas of uncertainty include: the ongoing transition of the Standard Life Assurance and ReAssure businesses into the Group, the expanded strategic partnership with TCS and the introduction of the hybrid working model.	Timely communications to colleagues aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against the Group's plans. The Group regularly benchmarks terms and conditions against the market. The Group maintains and reviews succession plans for key individuals, ensuring successors bring appropriate diversity of thought, backgrounds and experiences. The Group continues to manage colleague uncertainty of integration activities through cross-organisational collaboration, health and wellbeing support and regular communications to staff. The Group conducts monthly colleague surveys to monitor engagement levels and identify any concerns; appropriate actions are taken following analysis of the results. The Group continues to actively manage operational capacity required to deliver its strategy with ongoing focus on senior bandwidth, attrition and sickness. A move to hybrid working offers colleagues greater flexibility in both where and how they choose to work in future.	1 2 3 4 5	**No change** Whilst there have been strong engagement scores in colleague surveys during 2021, 'No Change' is driven by uncertainty regarding the longer term social and marketplace impacts of the pandemic on colleague attrition and sickness. Skills essential to the Group are currently in high-demand in the wider marketplace and recruitment and retention has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Group continues to monitor this closely but remains confident in the attractiveness of its colleague proposition. The Group has opted to implement a hybrid working model. The approach is focused on empowerment by enabling leaders and colleagues to agree together the right working arrangements which meet individual, team and business needs. Strategic investments in technology and other resources have been made to maximise the efficacy of the hybrid model implementation. 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 in the future. In addition, the Group's Graduate Programmes restarted in 2021, helping to support the talent pipeline.

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
Market risk				
Adverse market movements can impact the Group's ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment	The Group and its customers are exposed to the implications of adverse market movements. This can impact the Group's capital, solvency, 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's exposures are currently relatively small in the context of the Group's AUM and remain within risk appetite. The Group continues to implement de-risking strategies 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's excess capital position continues to be closely monitored and managed. The Group regularly discusses market outlook with its asset managers.	1 2 3	**No change** Market stability improved in 2021, driven by a successful COVID-19 vaccine rollout. However, there remains significant market uncertainty as a result of the developing conflict in Ukraine which has resulted in economic sanctions being introduced against Russia and Belarus as well as the risks presented by further mutations of the COVID-19 virus. The Group continues to monitor its exposure to markets affected by the conflict in Ukraine and the effects of the conflict on markets in which the Group transacts. Inflation is considered a risk over the short to medium-term, with a shortage of labour in key industries and ongoing supply chain issues increasing costs. The Bank of England is faced with a balancing act of managing inflation and aiding the post-COVID recovery. Changes in inflation have, to date, followed market predictions; however, any unexpected moves in interest rates are likely to impact asset values significantly. The Group's strategy involves hedging the major market risks and in 2021 the Group's Stress and Scenario Testing Programme demonstrated the resilience of its balance sheet to market stresses. Contingency actions remain available to help manage the Group's capital and liquidity position if any unanticipated market movements occur.
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 3	**No change** 'No Change' is driven by remaining uncertainty around future demographic experience as a result of COVID-19 impacts. Demographic experience and the latest views on future trends are considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has been given little weight given its anomalous nature. The Group completed bulk annuity transactions with a combined premium of £5.6 billion in 2021. Consistent with previous transactions, the Group continues to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.

Strategic priorities: 1 Optimise our in-force business 2 Enhance our operating model and culture 3 Grow our business to support both new and existing customers 4 Innovate to provide our customers with better financial futures 5 Invest in a sustainable future

Risk	Impact	Mitigation	Strategic priorities	Change from 2020 Annual Report and Accounts
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, reinsurance or banking counterparties. This could cause immediate financial loss, or a reduction in future profits. The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations.	The Group regularly monitors its counterparty exposures and has specific limits relating to individual counterparties, sector concentration and geography. The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Group regularly discusses market outlook with its asset managers. For mitigation of risks associated with stock-lending, additional protection is provided through indemnity insurance.	1 2	**No change** Over the last 12 months the Group has continued to undertake de-risking action to increase the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital. Furthermore, the Group has enhanced its counterparty concentration limits framework to better manage counterparty failure risk. This positive progress is balanced by residual uncertainty, due to the wider economic and social impacts arising from COVID-19, and the developing conflict in Ukraine which presents an increased risk of downgrades and defaults. This results in 'No Change' overall. The Group has immaterial credit exposure to Russia and no shareholder exposure to sanctioned Russian banks. The Group continues to increase investment in illiquid credit assets as a result of BPA transactions. This is in line with the Group's strategic asset allocation plan and within risk appetite.

Emerging risks and opportunities

The Group's senior management and Board take emerging risks and opportunities into account when considering potential outcomes. This determines if appropriate management actions are in place to manage the risk or take advantage of the opportunity. Key risks discussed by senior management and the Board during 2021 include:

Risk Title	Description	Risk universe category
Consumer Duty	The FCA has set out plans for a higher level of consumer protection in retail financial markets, where firms are competing vigorously in the interests of consumers. Consultation underway to introduce a new 'Consumer Duty', setting higher expectations for the standard of care that firms provide to consumers.	**Customer**
Artificial Intelligence	Risk in late adoption of operational efficiency opportunities that AI capabilities could present, e.g. by not keeping up with emerging machine learning and perception systems.	**Operational**
Solvency II Reforms	HM Treasury issued Call for Evidence on potential reforms to SII for the UK, post-Brexit. The scope is expected to include a 60–70% reduction to the Risk Margin, a review of the Fundamental Spread component of the Matching Adjustment and a relaxation of Matching Adjustment eligibility rules. Detail on potential reforms to Solvency Capital Requirement has not yet featured.	**Operational, Financial Soundness**
Pension Superfunds	Pension Superfunds could offer a cheaper or easier option than Bulk Purchase Annuities (BPAs) for Defined Benefit schemes looking to de-risk and transfer their liabilities.	**Strategic**

Viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Board has completed an assessment of the prospects and viability of the Group over a five-year period to December 2026.

Assessment process and key assumptions

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

The output of the AOP is a set of strategic priorities, detailed financial forecasts, and risks and contingent actions to be considered. The latest AOP was approved by the Board in February 2022. This considered the Group's current position and its prospects over a medium-term horizon, reflecting the Group's stated strategy.

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

The Board has determined that the five-year period to December 2026 is an appropriate period for the assessment, being the period covered by the AOP.

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

- no further dividend increase beyond the proposed 3% increase to the 2021 Final dividend is assumed throughout the viability assessment period;
- that corporate acquisitions are not relevant, as any acquisition would only be progressed on the basis it meets the Group's stated criteria and capital allocation framework; and
- the stresses calculated occur on 1 January 2022 and are informed by the Group's Solvency II internal model, assessment of the economic outlook and the principal risks facing the business. No allowance is made for any recovery, but the projections will take into account the impact of any appropriate Solvency II transitionals recalculation and the availability of contingent actions to increase resilience.

Assessment of viability

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

- It defined that viability is maintaining the capability to satisfy mandatory liabilities and meet external targets;
- It considered the impact of the evolution of the Group's strategy, notably the increased investment in the growth of the Open business. Any such investment needs to comply with the Group's capital allocation framework and risk appetite, and 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;
- It reviewed the AOP which considers profits, liquidity, solvency and strategic priorities and the impacts of management actions on the Group. The AOP was finalised in February 2022 and reaffirmed the Group's strategy;
- It completed stress testing to assess viability under severe but plausible scenarios, including two adverse stresses, which are deemed to be representative of the key financial risks to the Group as follows:

  1. Market stress – a combined market stress broadly equivalent to a 1 in 10-year event, calibrated to the Phoenix internal model, incorporating a fall in equity, property values and yields, with a widening of credit spreads.
  2. Longevity stress – longevity and yield stress broadly equivalent to a 1 in 10-year event, which implies a 1.2 year increase in life expectancy for a 65 year old male and 1.2 year increase for a 65 year old female, alongside a fall in yields.

- Consistent with 2020 the Board considered further the potential impacts of COVID-19 on the Group including additional stress and scenario testing;
- The Board considered the impact of potential climate change scenarios and mitigating actions;
- It considered the principal medium to long term risks facing the Group which have the potential to impact on viability as discussed in the Risk report above; and
- The Board reviewed quantitative and qualitative stress tests covering the Group's principal risks, including reverse stress tests, and contingent actions available that could be implemented should any risk materialise that threatens the Group's resilience.

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

COVID-19

The Group's business has remained resilient during the COVID-19 pandemic. Operational capacity across the Group, and within our outsourcing partners, has been and continues to be actively managed to meet business demands and prevent any adverse impact to customer outcomes and business performance.

Despite the easing of restrictions across the UK, case rates remain high with a risk that this impacts sickness rates. Rates of inflation are high which is placing pressure on household incomes, increasing costs and tightening the labour market. Such factors may contribute to continued macroeconomic volatility and slow the pace of recovery. Whilst the Group's hedging strategy provides resilience in this regard, the Group's financial position retains exposure to volatile economic conditions.

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

Ukraine conflict

Russia's invasion of Ukraine has led to increased market and economic volatility and the imposition of political and economic sanctions on Russia and Belarus. The Group has minimal direct exposure to Russian-based assets, however there is the potential of indirect impacts from exposure to sectors that have investment in Russian interests. Whilst the Group has not performed any additional scenario analysis to assess potential wider economic impacts, the downside and severe downside recession scenarios described above capture similar risks to those that could arise.

Additional stress testing

The Group's wider Stress and Scenario Testing programme has covered more onerous scenarios with a very low likelihood of occurring.

The Group's Recovery Plan includes a range of contingency actions and demonstrated how these could be used to recover from an extreme scenario combining market and longevity risks, and an extreme liquidity scenario involving reduced access to money market funds. Contingency actions are reviewed quarterly.

The Group's Contingency Liquidity Plan provides a framework for analysing and responding to an event that threatens the liquidity of the Group, mitigating actual and potential liquidity stresses.

We successfully completed the Bank of England Climate Biennial Exploratory Scenario exercise and additionally developed our internal climate change scenario analysis, which considered key management actions, such as decarbonisation of our investment portfolio as we transition towards the net zero target.

The Board also reviewed qualitative reverse stress tests and tail risk analyses, covering financial and non-financial impacts (including impacts on strategy, reputation, customers and operations), and mitigating actions. These covered a range of risks including for example the failure of a key counterparty or a cloud computing issue.

Considering the uncertain environment, the Board believes that the market stress applied as part of the viability assessment (which assumes no economic recovery) represents a severe but plausible scenario covering the macroeconomic risks to which the Group is exposed over the period of the viability assessment. The results of the additional economic scenario testing described above have been considered as ancillary information in the Board's overall assessment of the viability of the Group.

Statement of viability

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

Corporate governance

Continued resilience in a dynamic environment

"Our robust governance remains a solid bedrock and protection for our customers and shareholders. It is a fundamental factor supporting the growth and success of our business."

Nicholas Lyons
Chairman

Our Board has overseen a year of achievement at Phoenix as the fruits of our Open business growth strategy have started to emerge at the same time as our Heritage business has continued to provide strong cash generation. Board focus is firmly on delivering cash, resilience and growth which continue to serve our customers and investors well.

It has been a pivotal year for Phoenix as we have 'proven the wedge', with growth from our Open business more than offsetting the run-off of our Heritage business for the first time. This means that Phoenix is now a growing, sustainable business. As a result, with the Group having met its two publicly stated dividend growth conditions, the Board has determined that the organic growth in the business during the year can sustainably fund a 3% increase in the Final 2021 dividend. I am delighted that Phoenix has been able to deliver this strong outcome for our shareholders and believe it underlines the Board's confidence in our future trajectory.

Our purpose is "helping people secure a life of possibilities." That cannot be achieved if we do not take action to make a positive contribution to our local communities and to wider society. You can read all about our sustainability activity in the Group Sustainability Report. My wish here is to underline the absolute commitment and drive of our Board and management to optimise the impact we make. We have £310 billion of assets under management and we know the influence we can have with how those assets are invested. Integrating sustainable objectives for the benefit of our customers, shareholders and society is a core aspect of our asset management strategy, approved by the Board.

I am very pleased that we established a dedicated Board Sustainability Committee, with Karen Green as Chair. This committee has been very active in 2021 in its oversight of our sustainability activity which goes much further than simply how we invest our assets.

The Board is strongly behind our three strategic capabilities of Heritage, Open and M&A. During 2021, the Board approved the allocation of more capital to the successful growth of our Bulk Purchase Annuity business. This is an example of how we deliver long-term cash generation as well as investing in sustainable assets which support the 'impact investing' agenda.

Our Board and Sustainability Committee have been very focused on leading the right culture, driven from the Board and senior management; a culture linked to our purpose of helping people secure a life of possibilities and to our strategy and values with integrity, transparency and inclusivity at the core.

Management information on risk culture and culture more generally is reviewed by our Board Risk Committee and Board Sustainability Committee respectively on a regular basis through the year. I am very pleased that the external Board effectiveness review by Consilium Board Review which reported in December 2020 stated "culture and cohesion" as a strength of the Board, also describing it as "open, selfless, thorough and diligent, unpolitical, respectful and independent." We have built on that in 2021 and a session on building culture and capabilities was featured at the start of our Board's strategy offsite in July 2021.

Our Board effectiveness review (more detail contained in the Nomination Committee Report on page 94), undertaken internally in the latter part of 2021, concluded that the Board is "constructive, supportive and challenging to management and functions strongly as a unit" and that "there is a healthy respect for different views and recognition of the different skills brought to the Board table." However, we noted that "the Board is aware of the significant challenges for a business of the size and ambition of Phoenix and continues to look for improvement and greater diversity in its composition."

Board highlights 2021

Approval of the Group sustainability strategy.

Read more page 85 →

Colleague engagement: two-way dialogue.

Read more pages 88 to 89 →

A strong programme of Board education sessions.

Read more page 93 →

Bringing together our purpose, strategy, culture and values.

Read more page 78 →

Action beyond the boardroom.

Scan the QR code to watch our video →

Strategy offsite and approval of the Group's strategy

Read more page 78 and 91 →

AGM votes in favour of all resolutions May 2021

96%

96% in 2020

FTSE position as at 31 Dec 2021

75

70 in 2020

UK Corporate Governance Code

Fully compliant in 2021

Fully compliant in 2020

UK Corporate Governance Code

As summarised on page 73 and detailed in the Corporate Governance Report on pages 72 to 105, we complied in 2021 with all the provisions of the UK Corporate Governance Code ('the Code'). We have complied with all the provisions of the Code in its appropriate version in each of the last seven years.

This leads me to comment on our desire continually to make the Board more diverse in all respects, better to reflect our changing society and also to drive stronger performance by welcoming different views and experiences. I am pleased that we comply with the Hampton-Alexander guidance for at least 33% of the Board to be female and the Parker guidance for at least one Director to be from an ethnic minority. We undertook a skills review of the Board in the second half of 2021 and our succession planning is designed to deliver an evolving Board with the right skills, experience and diversity. We don't regard these measures as a destination though and we are working to standards of quality and proportionality.

I am therefore very pleased that Katie Murray will be joining our Board from 1 April 2022. She not only brings great skills and experience but, as importantly, a good fit with our values and culture. Katie, as the current CFO of NatWest, adds an exciting dimension of current, relevant executive experience and also age diversity.

I do not expect to be writing this report next year as I plan to take a sabbatical from my role as Phoenix Chair from September 2022 to November 2023 in order to devote my time to my anticipated position as Lord Mayor of the City of London from November 2022 following my previously announced nomination to that role. The Board have been very supportive of my accepting this position as they see it as consistent with Phoenix's wider societal responsibility. I am extremely pleased that our Senior Independent Director, Alastair Barbour, has been appointed by the Board as Interim Chair, subject to regulatory approval, during my sabbatical. Alastair has substantial chairing and technical skills and experience which make him eminently capable for this role.

I am also delighted that Karen Green, again subject to regulatory approval, has been appointed as our Senior Independent Director to succeed Alastair. Karen is our designated Non-Executive Director for workforce engagement and the chair of our Board Sustainability Committee. She will be an excellent support to Alastair and to me.

In June 2021, one of our strategic shareholders, Swiss Re, reduced their shareholding in Phoenix Group to below the 10% level at which they were entitled to appoint a Non-Executive Director to the Phoenix Board. As a consequence, their nominated representative, Chris Minter, resigned from the Phoenix Board. I wish to thank Chris for the significant contribution he made since joining the Board in July 2020 and Swiss Re for its support during its time as a significant strategic shareholder. I am very grateful for the continuing support we receive from our biggest shareholders and strategic partners, abrdn and MS&AD.

I am, as ever, also grateful for the continued strong support of our shareholders who approved all 24 resolutions at our AGM in May 2021 with at least 96% votes cast in favour.

Finally, I wish to thank our amazing people for their continued commitment and dedication to Phoenix, our customers and shareholders. We approach 2022 with confidence.

Nicholas Lyons
Chairman

Robust governance

The foundation enabling our purpose, strategy, values and culture. Providing reassurance to our stakeholders.

The Board of Phoenix Group Holdings plc provides strong leadership for the Group, working to ensure cohesion between our purpose, strategy, values and culture. Phoenix's purpose, to help people secure a life of possibilities, is deeply rooted in our desire to be a force for good. Our strategy is designed to help us achieve this purpose. Our values set the tone for expected behaviours and our culture is the thread that ties this all together.

How the Board brings cohesion between our purpose, strategy, values and culture
As reported last year, during 2020, the Board played a key role in overseeing the redefining of the Company's purpose. During 2021, the Board continued its focus on our purpose by setting a strategy for the Group designed to drive progress towards this goal. Each year the Board undertakes a review of Group strategy at its two-day strategy session. The Board and its Committees then monitor performance and ensure that management put in place resources required to deliver the strategy.

The achievement of our social purpose and strategy is dependent on behaviours that work in alignment therewith. Our values described on page 78 of this Corporate Governance Report provide a clear framework for the behaviours required to achieve our purpose and deliver our strategy. The Board oversees the Company's culture through the means described on page 78 of this report. The right culture is essential to bring our values to life. Phoenix's culture is the thread that not only intertwines our purpose, strategy and values, but also ties together governance, colleagues and wider stakeholders.

Read more about the way in which the Board has ensured the alignment of the Company's purpose, strategy, values and culture during 2021 on page 78 of this Corporate Governance Report. →

Compliance with the UK corporate governance code in 2021

It is the Board's view that during 2021 the Company has been fully compliant with the principles and provisions set out in the Code. This 2021 Corporate Governance Report (set out on pages 72 to 136) illustrates how Phoenix Group Holdings plc has applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code (the 'Code') during 2021. The schedule on the following page provides signposting of where this report illustrates Phoenix Group Holdings plc's compliance with the Code and a high level overview of that compliance.

Our Board of Directors

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

The Board comprises the Non-Executive Chairman, Group Chief Executive Officer, the Group Chief Financial Officer, one abrdn-nominated Director, one MS&AD-nominated Director and seven independent Non-Executive Directors.

Nicholas Lyons
Chairman

(Appointed 31 October 2018)
Committee:

Experience and role on the Board
"As Chairman of Phoenix, I lead the Board for the benefit of all stakeholders. My business and leadership experience has been developed by various senior management roles in investment banking over 22 years, including at JP Morgan and at Lehman Brothers where, as Managing Director in the European financial institutions group, I advised banks and insurance companies on mergers and acquisitions and capital raising; and numerous non-executive roles including at the Pension Insurance Corporation (as Senior Independent Director); Catlin Group Limited (as Senior Independent Director), Miller Insurance Services LLP (as Chairman); and Friends Life Group amongst others."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of mergers and acquisitions; capital markets; regulation; strategy; sustainability; human resources; governance and leadership.
- FTSE 100 Board experience and FTSE 250 Board experience (with Phoenix, Catlin and Friends Life Group) and in privately owned companies such as BUPA, including oversight and implementation of short and medium term strategic plans; safeguarding of robust governance; and communication of organisational culture and values.
- Over 40 years of experience in financial services.

Key external appointments
Board of Miller Insurance Services LLP and Convex Group Limited. Sheriff and Alderman in the City of London.

Andy Briggs
Group Chief Executive Officer

(Appointed 10 February 2020)

Experience and role on the Board
"As Group CEO of Phoenix, I have a passion for our Group 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 and attributes supporting achievement of purpose and strategy
- 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.

Key external appointments
Board member of the Association of British Insurers, Trustee of the NSPCC and Chair of their Income Generation Committee. Also the government's Business Champion for Older Workers and for the Ageing Society Grand Challenge. Awarded an MBE in 2021.

Rakesh Thakrar
Group Chief Financial Officer

(Appointed 15 May 2020)

Experience and role on the Board
"I was appointed as Group CFO in May 2020, following six years as Deputy CFO and 20 years with Phoenix. My experience has spanned a breadth of finance and strategy-related roles, as well as numerous acquisitions and integrations, 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 and attributes supporting achievement of purpose and strategy
- 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.

Key external appointments
None.

Alastair Barbour
Senior Independent Director

(Appointed 1 October 2013)
Committee:

Experience and role on the Board
"I have a significant amount of audit experience (gained at KPMG) which enables me to effectively lead as Chair of the Phoenix Group Holdings plc Audit Committee. My experience as a Non-Executive Director enables me to perform the role of Senior Non-Executive Independent Director of the Board, a role which I was honoured to take on in 2018."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of mergers and acquisitions; capital markets; regulation; finance; asset management; risk management and FTSE 100 Board experience.
- Over 30 years of audit experience.

Key external appointments
Chairman of Liontrust Asset Management plc and Lead Independent Director of The Bank of N. T. Butterfield & Son Limited.

2021 Board changes
Following the sale of 66,199,917 shares in Phoenix by Swiss Re (and resulting ownership falling below 10% of Phoenix's issued share capital), Mr Christopher Minter resigned from the Board as Swiss Re's nominated Non-Executive Director on 25 June 2021.

Committee membership key

- Audit
- Nomination
- Remuneration
- Risk
- Sustainability
- Denotes Chairman

Karen Green
Independent Non-Executive Director

(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. My knowledge of the insurance industry and expertise in M&A and corporate finance enables me to contribute to the development and execution of the Group's strategy as a Non-Executive Director of the Board."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in the areas of mergers and acquisitions; capital markets; regulation; finance; risk management and FTSE 100 Board experience.
- Over 30 years of experience in financial services and insurance.

Key external appointments
Non-Executive Director and Audit Committee Chair at Admiral Group plc; Non-Executive Director of Miller Insurance Services LLP; Non-Executive Director and Chair of the Risk Committee of Asta Managing Agency Limited; and a Council Member and Investment Committee Chair of Lloyd's of London. Advisor to Cytora Limited (Insurtech) and a member of the Development Council of the Almeida Theatre Company.

Hiroyuki Iioka
Non-Executive Director

(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 thereof. I have held a series of senior roles within the MS&AD (an insurance group operating globally), including executive and director positions at its UK insurance subsidiaries."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of mergers and acquisitions; capital markets; finance; asset management; and risk management.
- Experience in the global insurance industry.

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

Alternate Non-Executive director of Challenger Limited, listed on the Australian Stock Exchange.

Wendy Mayall
Independent Non-Executive Director

(Appointed 1 September 2016)
Committee:

Experience and role on the Board
"I was appointed as a Non-Executive Director of Phoenix in 2016. My role enables me to utilise my experience in governance, insurance and investments. My previous experience, which supports my contribution as a Phoenix Board member, includes being Chief Investment Officer at Unilever, Group Chief Investment Officer at LV=, and Chair of the Investment Committee at The Mineworkers Pension Scheme, a Government appointment to one of the largest pension schemes in the UK."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of capital markets; life assurance; asset management; risk management; sustainability/ESG; and change.
- Experience in governance, insurance and investment matters.

Key external appointments
Non-Executive Independent Director of the Handelsbanken ACD, Independent Member of the Quilter Investment Oversight Council, and Chair of the Investment Committee of Renewity.

John Pollock
Independent Non-Executive Director

(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 and attributes supporting achievement of purpose and strategy
- 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.

Key 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 and attributes supporting achievement of purpose and strategy
- 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.

Key external appointments:
Non-Executive Director, currently on the boards of Avast plc, The Monks Investment Trust plc and Schroder Japan Growth Fund plc. Also the Audit Chair and a Trustee of Youth Sport Trust.

Nicholas Shott
Independent Non-Executive Director

(Appointed 1 September 2016)
Committee:

Experience and role on the Board
"My experience includes 30 years as an investment banker at Lazard. Specifically, this experience has included running the European Media practice, and acting as a generalist banker in a wide range of sectors and countries. I became European Vice Chairman in 2007 and Head of UK Investment Banking in 2009. I am now a Senior Adviser 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 and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of mergers and acquisitions; and capital markets.
- 30 years of experience as an investment banker.

Key external appointments:
Joined Lazard in 1991 and became a Partner in 1997; European Vice Chairman from 2007 and Head of UK Investment Banking from 2009 (both relinquished in mid-2021 on becoming Senior Adviser); Non-Executive Director on the Board of the Home Office from March 2017 to June 2020.

Kory Sorenson
Independent Non-Executive Director

(Appointed 1 July 2014)
Committee:

Experience and role on the Board
"My experience and expertise in insurance, finance and human capital enables me to effectively serve Phoenix and its stakeholders as a Non-Executive Director and Chair of the Remuneration Committee. My experience includes performing the role of Managing Director, Head of Insurance Capital Markets, at Barclays Capital – a role which covered the optimisation of capital resources via equity, hybrid and debt capital management as well as M&A, risk management, and life insurance securitisation. My external appointments outlined below provide me with a wide perspective of the insurance market."

Skills and attributes supporting achievement of purpose and strategy
- 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.

Key external appointments
Non-Executive Director and Chair of the Audit Committee of SCOR SE; a Non-Executive Director and Chair of the Remuneration Committee of Pernod Ricard SA; a Non-Executive Director and Chair of the Audit Committee of SGS SA; a Non-Executive Director of Basing TopCo Limited; a member of the supervisory board of the privately-owned bank Gutmann AG; and a member of the Board of Partners of privately-owned COMGEST.

Mike Tumilty
Non-Executive Director

(Appointed 1 September 2019)
Committee:

Experience and role on the Board
"My role as Non-Executive Director on the Board at Phoenix enables me to utilise my experience of over 25 years at abrdn. I have spent the majority of my career in the Change, Technology and Operations arena. My experience enables me to support Phoenix's change agenda for the benefit of the Group and all of our stakeholders."

Skills and attributes supporting achievement of purpose and strategy
- Core skills and expertise in areas of mergers and acquisitions; asset management; risk management; customer service and solutions; change; IT/digital; operations; and FTSE 100 Board experience.
- Experience in change, technology and operations.

Key external appointments
Global Chief Operating Officer of abrdn.

Our business, led by the Executive Committee
The Executive Management of the Group is led by the Group Chief Executive Officer, who is supported by the Executive Committee ('ExCo'). During 2021, 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
Group Chief Executive Officer

Rakesh Thakrar
Group Chief Financial Officer

Matt Cuhls
Managing Director, ReAssure Operations/ALPHA Platform

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

Mike Eakins
Group Chief Investment Officer

Anna Franekova
Corporate Development Director

Claire Hawkins
Corporate Affairs and Investor Relations Director

Tony Kassimiotis
Group Chief Operating Officer

John McGuigan
Group Customer Director

Andy Moss
Life Companies CEO and Group Director, Heritage Business

Jonathan Pears
Group Chief Risk Officer

Sara Thompson
Group HR Director

Quentin Zentner
General Counsel

Gerald Watson
Group Company Secretary (Secretary to ExCo)

Kulbinder Dosanjh
Incoming Group Company Secretary (Secretary to ExCo with effect from 1 April 2022)

Scan the code to access the roles and responsibilities of the ExCo →

Our governance framework and the Board's role: Governing Phoenix to help people secure a life of possibilities, to and through retirement

Board oversight and delegation to committees and management

Committee and management accountability and performance measuring

Phoenix Group Holdings plc Board

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

Audit Committee

- Financial Reporting
- Internal Controls
- External Audit
- Internal Audit
- Whistleblowing

See pages 96 to 100

Risk Committee

- Risk Appetite and high-level risk matters
- The Group's Risk Management Framework

See pages 101 to 102

Sustainability Committee

- Sustainability strategy
- ESG reporting
- Culture monitoring

See pages 103 to 105

Remuneration Committee

- Group remuneration framework
- Executive director remuneration
- Employee share schemes

See pages 106 to 107

Nomination Committee

- Board and senior executive appointments
- Diversity and inclusion
- Board and senior executive succession planning

See pages 94 to 95

Phoenix Group Holdings plc Executive Committee

- 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 Phoenix Group Holdings plc 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 the ever evolving market conditions in which we operate. The Group Board expects robust governance which is monitored through a number of mechanisms, including: engagement with stakeholders, effectiveness reviews, control reviews, risk culture surveys and support from the Group Company Secretary and their team. To ensure the adaptability, agility and accountability required to achieve our purpose, the Board drives a modern culture of empowerment through delegation to its Board Committees and individuals within management. Empowerment fosters diversity of thought and innovation to ensure we achieve our strategy and purpose, whilst always under the guiding watch of our Board.

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 2021, the Board has acted in accordance with its matters reserved and its key activities during the year are shown on pages 79 to 80 of this report. The full schedule of matters reserved for the Board is available on the Company's website.

Operation of the Board and our governance framework

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 Phoenix Group Holdings plc 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 above. Full 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 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.

Conflicts of interest

A register of conflicts of interest is maintained by Company Secretariat on behalf of the Board. The Directors each understand their responsibility to identify and manage conflicts of interest, bringing conflicts to the attention of the Board and the Group Company Secretary as required under the Companies Act 2006. Conflicts of interest are managed in three clear steps:

- Declare: conflicts are noted, considered and recorded.
- Discussion: the conflicted Director does not take part in discussions relating to the conflict.
- Decision: the conflicted Director does not take part in decisions relating to the conflict.

Due care and process is, of course, applied in respect of shareholder nominated Board Directors as appropriate.

Bringing together our purpose, strategy, culture and values, through resilient governance and effective Board action for today and tomorrow.

Purpose

Our purpose, established by the Board (to help people secure a life of possibilities) is why Phoenix exists; what we do as an organisation; and what we strive to achieve. As the pensions landscape and societal needs evolve, the Group strives to be a secure and dependable ally in the journey to and through retirement for millions of customers. As the UK's largest long-term savings and retirement business, we believe Phoenix has an important role to play in society. This means ensuring robust and virtuous decision-making from the Board down; investing responsibly and sustainably; driving forward a strong sustainability strategy and using our presence and voice to be an advocate on behalf of the UK's savers.

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 Group's strategic priorities (including to optimise our in-force business; enhance our operating model and culture; grow our business to support both new and existing customers; innovate to provide our customers with better financial futures; and invest in a sustainable future) provide management with clear direction to deliver the successful achievement of targets for the benefit of stakeholders. The Board is responsible for establishing the right strategy for the Group, ensuring that this is aligned with not only our purpose but also with the values and culture of the business. Without cohesion between all four of these elements, the Group's ability to achieve success will be limited.

Values

Our values (passion, responsibility, courage, growth and difference) articulate the behaviours and qualities Phoenix colleagues are expected to demonstrate throughout all levels of 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).

- We are passionate about understanding and acting on what's important to our customers, colleagues and society.
- We build trust by taking accountability and empowering others to do the right thing.
- We're ambitious in the challenges we solve and we always speak up.
- We grow our business through finding new ways to develop our expertise and innovate.
- We collaborate across boundaries and embrace difference to deliver the best customer and colleague outcomes.

Culture

Our culture defines us and has, and continues to be, developed through our values being lived by colleagues each day. Phoenix has a strong culture which is modern, inclusive and brave. We are customer obsessed and drive the Group to be a force for good. 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. The 2021 Board effectiveness review concluded that the Board "provides an energetic sense of optimism and determination to succeed" and has a "healthy respect of different views" – signalling role modelling of the attitudes and behaviours needed for an inclusive, innovative and sustainable business.

During the year, the Board received updates on the evolution of the Group's culture to drive enhanced levels of empowerment throughout the business and make Phoenix the best place colleagues have ever worked. The Board Sustainability Committee has supported the Board's oversight of culture during the year and received updates on the Group's people strategy and engagement data from the Group HR Director during 2021.

Governance is key to bringing together our purpose, strategy, values and culture in a cohesive way to better equip the Group to create a positive and lasting impact for our stakeholders and wider society. The Board is central to binding these four elements together through overseeing the alignment, and monitoring management's achievement, of a clear link to each within our workforce policies and practices.

Our Board in action

The Board has overseen the Group's high standards of corporate governance and business performance throughout 2021.

During a year of significant progress, the Board has continued to ensure a progressive cycle of continuous improvement and championed the Group's commitment to high standards of corporate governance – the foundation enabling cash generation, resilience and growth for the long-term success of Phoenix for stakeholders and wider society.

The Board discharging Section 172 Companies Act 2006 duties
When making decisions, the Board has paid due regard to the matters set out in Section 172 of the Companies Act 2006; the furtherance of steps towards the Company's purpose; insights from stakeholder engagement and the impact on wider society. The Company's Section 172 statement can be found on page 43 of the Strategic Report. The way in which the Directors have exercised their Section 172 duties is explained on pages 84 to 87 of this report, illustrated in the context of key strategic decisions made during the year.

Strategic priorities key
- Optimise our in-force business
- Enhance our operating model and culture
- Grow our business to support both new and existing customers
- Innovate to provide our customers with better financial futures
- Invest in a sustainable future

Areas of focus	Board activities
Purpose, values and strategy	• Approval of Annual Operating Plan and five-year strategic plan. • Approval of additional funding for the advancement of Bulk Purchase Annuities ('BPA') activity. • Consideration of the Phoenix Master Brand architecture. • Approval of management action to acquire the Standard Life brand. • Monitoring launch of Phoenix Insights. • Consideration of Phoenix's strategy for Europe. • Approval of a strategic framework for future acquisitions.
Overseeing operational performance against strategy	• Monitoring progress against 2021 targets. • Consideration of and challenge to CEO updates on strategic performance. • Consideration of and challenge to the Phoenix Change Management Framework. • Monitoring of performance against the Group's Balanced Scorecard.
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. • Recommendation of the 2020 Final Dividend and 2021 Interim Dividend. • Approval of funding and capital strategy. • Approval of the Group's tax strategy.
Engagement with Stakeholders	• Monitoring of customer service, operational resilience and colleague wellbeing. • Monitoring of investor engagement activities. • Consideration of investor and media reaction to YE20 and HY21 results. • Consideration of investor feedback and analyst reports, including investor sentiment on the future of Phoenix. • PRA/FCA meeting with the Board. • Interaction with colleagues, through the Phoenix Colleague Representation Forum and Designated Non-Executive Director for Workforce Engagement (see pages 88 to 89 for more detail) and an interactive Board/Colleague lunch. • Customer calls listening session.

Board leadership and Company purpose continued

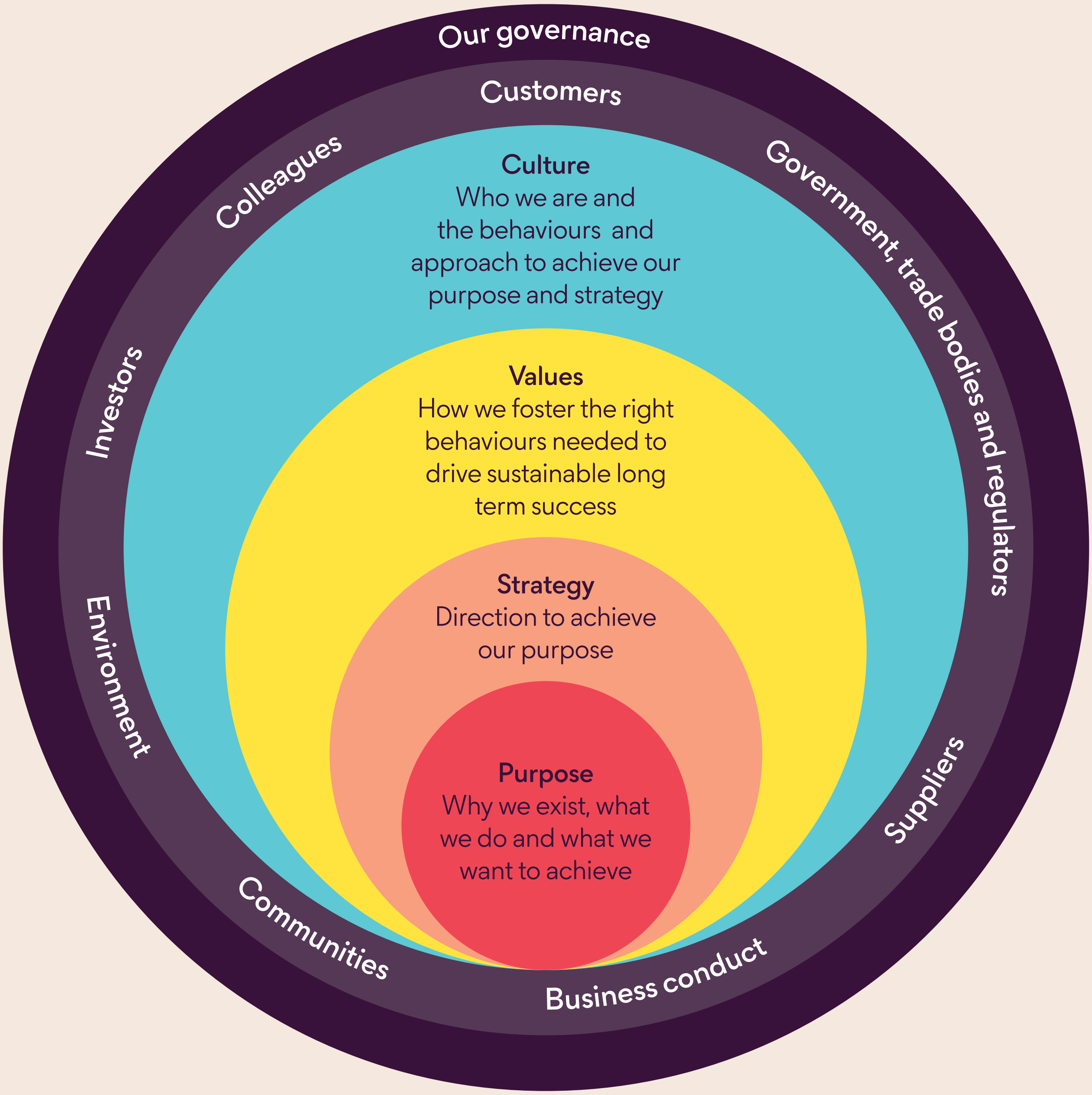
Areas of focus	Board activities
Sustainability	• Approval of the Group sustainability strategy. • Monitoring progress against the Group's sustainability agenda and strategy. • Approval of the Group's Modern Slavery Statement. • Approval of Phoenix's Climate Biennial Exploratory Scenario results submission. • Participation in a significant programme of education on the Taskforce on Climate related Financial Disclosure.
Workforce policies and culture oversight	• Monitoring the ongoing COVID-19 situation – impact on workforce and return to the office roadmap. • Approval of Group risk policies. • Whistleblowing oversight. • Monitoring of internal perception of culture and alignment with the Phoenix purpose and values. • Oversight of engagement scores from monthly pulse surveys. • Monitoring of empowerment initiatives and approval of enhanced delegated authorities to support an empowered culture within risk appetite.
People strategy, diversity & inclusion and succession planning	• Monitoring of progress towards targets aligned with the Women in Finance Charter. • 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. • 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	• COVID-19 monitoring and stress and scenario testing. • Monitoring of the Group's risk culture. • Approval of the Group's Risk Appetite, agreement on Principal Risks and assessment of the approach to identifying and managing emerging risks. • Monitoring performance against the Group's operational risk management framework.
Corporate governance and reporting	• Simplification of governance continued. • Monitoring compliance with the Code. • Internal Board effectiveness review. • Subsidiary oversight. • External reporting. • Annual General Meeting – held on 14 May 2021.

Additional activities have been undertaken by the PGH plc Board Committees during the year, in line with their terms of reference. Key activities and decisions of these committees are highlighted in each respective Board Committee report on pages 94 to 107.
→

A clear model of virtuous decision-making

Our purpose to help people secure a life of possibilities is at the centre of decision-making. This drives our strategy and underpins our culture to be a customer obsessed force for good – a business with a forward looking and clear sense of responsibility for stakeholders. The Group's defined values are enablers for our culture with consistent application permeating throughout the Group, role modelled by the Board.

The views and needs of stakeholders (including those of future generations) are central to Board decisions because stakeholders are at the core of our purpose. Effective decision-making is key to the success of our Group and the achievement of sustainable long-term growth. The diagram below illustrates how various considerations are connected and brought together by the Board to deliver robust and virtuous decisions for the short, medium and long-term success of the Group.



The Board must balance a number of requirements when making decisions. The UK Corporate Governance Code (the 'Code') places significant importance on the effectiveness of Board decision-making and subsequent impact. Phoenix Group Holdings plc fully endorses the principles and provisions of the Code and the Board ensures an inclusive approach to stakeholders, taking into account the needs and considerations of a variety of stakeholder groups, when making decisions. This approach to decision-making is coupled with a strong focus to deliver outcomes aligned with the Group's purpose and the achievement of our strategy.

Stakeholder engagement from the top

Helping people secure a life of possibilities by understanding what matters to them.

The Directors of Phoenix Group Holdings plc are required, by the Companies Act 2006, to act in a way that is most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they must also consider the impact of the Board decisions on wider stakeholders and the environment. Directors require a clear understanding of the interests of Phoenix's stakeholders to assess the impact of the Group and its activities. As such, the Board ensures engagement with key stakeholders throughout the year, through direct Board engagement and oversight of engagement undertaken by the management. The Board considers the following to be the Group's key stakeholders.

Stakeholder Group	Key strategic link- why the Board considers our stakeholder to be key	How the Board has engaged with, and overseen the Group's attention to, its stakeholders	The Board's role in promoting positive relationships with stakeholders
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. Without our customers we would not exist and the Board recognises the responsibility it has to oversee the success of the business for all customers.	• 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 Remuneration Committee (which reported to the Board on a regular basis) focused on customer outcomes during the year, allocating 25% of the 2021 Annual Incentive Plan to be aligned with customer satisfaction metrics (see the Directors' Remuneration Report on page 106 to 136 for more detail). • A customer call listening session was held in response to a request from the Board Sustainability Committee, with an invitation open to all Board members to attend. The session involved listening to real customer calls, including examples of management's approach to supporting vulnerable customers.	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.
Colleagues	Our colleagues are a key asset to the Group and their dedication, commitment and capabilities are integral to the Group's success. Colleagues glue our common values together and champion a culture that genuinely strives for the achievement of our purpose and strategy. The Board is clear that colleagues are key to the achievement of our strategic priorities and long-term success.	• The Board received updates on colleague wellbeing, engagement levels and additional support measures provided to mitigate the impact of the pandemic and periods of lockdown, such as additional carers' leave and IT equipment for children being home-schooled. • 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 Executive Committee, 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 Designated Non-Executive for Workforce Engagement following engagement sessions with colleagues, including meetings with the Phoenix Colleague Representation Forum. • Once in-person restrictions were eased, Board members met with colleagues for an interactive lunch to discuss a range of issued including the Group's purpose, culture and impact on wider society and the environment.	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.

Stakeholder Group	Key strategic link- why the Board considers our stakeholder to be key	How the Board has engaged with, and overseen the Group's attention to, its stakeholders	The Board's role in promoting positive relationships with stakeholders
Investors	Our investors are vital to the future success of the Company and have played an essential key role in the growth and achievements of the Group to date. 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, the re-election of Directors on an annual basis and dialogue with Phoenix throughout the year.	• The Board received regular updates from the Group Chief Executive Officer on investor relations activities and feedback/ questions received from investors. • The Board engaged with investors on the topic of 'Phoenix of the future' as part of the Group's bi-annual investor consultation process. Following interviews with investors (representing c.40% of the Company's issued share capital), the Board received an in-depth report containing investor feedback and opinions for consideration. The report highlighted consensus of opinions between investors and areas with a broader range of views; enabling the Board to understand where investors might benefit from enhanced communication in future. • Investor feedback from the Group's results announcements and investor roadshows was reported to the Board during the year. • Board members, including the Board Chairman 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 Annual General Meeting (which was video webcast), investors were able to submit questions to be answered by each of the above. • The Chairman has, since the end of 2021 (January 2022), undertaken a schedule of meetings with major investors to discuss topical matters of importance to them.	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.
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 relationships we maintain and develop with our suppliers, strategic or otherwise is of vital importance in our drive to achieve our ultimate purpose of helping people secure a life of possibilities.	• The Board received regular updates from the Group Chief Executive Officer on customer service performance and outsourced services (including any ongoing impact of the pandemic thereto), 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 which outlines steps that Phoenix took, in the financial year ended 31 December 2020, 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 Board monitors the performance of suppliers and the relationships held therewith to ensure Phoenix is able to provide the best customer outcomes possible and deliver on its operational and financial targets. Positive relationships with suppliers are key to the success of both Phoenix and our suppliers
Communities	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. As the UK's largest long-term savings and retirement business, it is vital that Phoenix understands the needs of communities and provides support to close the pensions and savings gap in society in order to achieve our purpose.	• 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. • The Board Sustainability Committee participated in a community engagement deep dive session which focused on the Group's approach to engaging with our communities, progress made during 2021, future goals and embedded connection with Phoenix's culture.	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.

Stakeholder Group	Key strategic link- why the Board considers our stakeholder to be key	How the Board has engaged with, and overseen the Group's attention to, its stakeholders	The Board's role in promoting positive relationships with stakeholders
Government, trade bodies and regulators	As the UK's largest long-term savings and retirement business, our business is subject to financial services regulation. As a FTSE 100 constituent, Phoenix Group Holdings plc is 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. Our relationships with the Government, trade bodies and regulators is also of vital importance in facilitating the Group's role as a thought leader and our ability to communicate the views and concerns of our customers and society generally.	• The Board as a whole met with the FCA and PRA during the year to discuss routine regulatory matters. • Board directors met with the FCA/PRA on an individual basis to undertake 'close and continuous' meetings required by the regulator. • The Board received updates on management's interactions with regulators and any feedback received from those bodies, including on matters such as acquisitions and the Group's harmonised internal model application. The Board Audit Committee and Board Sustainability Committee considered the Group's Climate Biennial Exploratory Scenario submission prior to its release to the Bank of England, holding management to account with regard to the reliability and value of the content. • The Board Risk Committee ensured oversight of regulatory relationships, supported by regular reporting from the Group Chief Risk Officer.	The Board plays an important role in overseeing and enriching the relationships between Phoenix and Government, trade bodies and regulators. 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 as a responsible corporate citizen.

Details of the Group's broader stakeholder engagement can be found in the Strategic Report on pages 42 to 43. →

Board Directors' fulfilment of their duty under Section 172 Companies Act 2006 during 2021 Section 172 of the Companies Act 2006 (the 'Act') requires each director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing so, each director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and the environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

During the year, the Directors of Phoenix Group Holdings plc have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company as a whole – having regard to the matters set out in Section 172 (1)(a) – (f) of the Act. The Directors also considered the impact on, and interests of, Phoenix's stakeholders when making decisions and providing oversight and leadership of the Group. The Directors have applied Section 172 of the Companies Act 2006 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 85 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.

Example key Board decision	Approval of the Group Sustainability Strategy
Strategic priorities connection	**How the Board reached its decision**
Enhance our operating model and culture Innovate to provide our customers with better financial futures Invest in a sustainable future	**Consideration of matters set out in Section 172 of the Act** When approving the Group sustainability strategy, the Board considered the direct link that the strategy had to the Group's purpose and strategy, both of which support the long-term success of Phoenix. The Board was able to correlate the sustainability strategy with the impact on colleagues as a result of the 'People and Culture' element forming part of that strategy. The Board considered the impact of the strategy on customers, noting the commitment being made to improve financial and social wellbeing of customers of today and tomorrow. The Board also noted the impact on suppliers which was likely to increase accountability for this group of stakeholders to meet ESG standards expected by Phoenix. As standalone elements of the sustainability strategy, the Board was able to pay due regard to the impact that approving the strategy would have on the environment and our communities, noting the positive commitments within the strategy to reduce Phoenix's impact on the environment and to support communities. The Board noted the importance of the sustainability strategy for the Group's investors. The adoption, and publication, of a strong strategy in this area is key to enabling investors' understanding of Phoenix's approach to the long term success of the Group and its role as a responsible business. **Consideration of wider stakeholders** The Board considered the UK Government's decarbonisation commitment by 2050 and the alignment between the sustainability strategy therewith (i.e. the goal to decarbonise the Group's investment portfolio and achieve net zero carbon by 2050). **Relevant risks and opportunities** When considering the sustainability strategy, Board members (through the Board Sustainability Committee) considered the risks associated with setting KPIs and external commitments which may not be met, versus the risk of not setting a sufficiently stretching strategy to enable Phoenix to drive forward the achievement of our purpose. **Challenges faced when making the decision** Prior to the Board's approval, the Board Sustainability Committee challenged management to ensure that the strategy was sufficiently stretching and would enable Phoenix to keep pace amidst shifts in expectations in the market and from stakeholders. The sustainability strategy was modified following the Board Sustainability Committee's initial review, brought back to the Committee and challenged again to ensure that outcomes were appropriate prior to Board approval. Committee reporting to the Group Board supported its decision for approval.
Outcome and impact of the decision	The Board approved the 2021 Group sustainability strategy following due consideration of the matters set out in Section 172 of the Act and wider stakeholders. Approval of the sustainability strategy enabled management to act in accordance with agreed boundaries set by the Board. The approval of this strategy also enabled relevant KPIs and targets to be set and approved by the Board Sustainability Committee. Together, the strategy, KPIs and targets have driven the delivery of strong results for 2021. More detail can be found in the 2021 Group Sustainability Report.

Board leadership and Company purpose continued

Example key Board decision	Approval of allocation of additional capital for Bulk Purchase Annuity ('BPA') investment transactions
Strategic priorities connection	**How the Board reached its decision**

Strategic priorities connection:

Grow our business to support both new and existing customers

Invest in a sustainable future

Consideration of matters set out in Section 172 of the Act

When determining whether to approve the allocation of additional capital for investment in external BPA transactions during the year, the Board considered the long-term impact of its decision. It was noted that the further investment would increase the Group's long-term cash generation for 2021 and support growth of long-term free cash. The Board recognised that the decision to approve the allocation would support the Group's overall growth strategy and the long-term success of the business. The long-term success of the business directly impacts a continued sense of job security for colleagues, thus the decision to approve the allocation could be seen to positively support the interests of employees.

When considering the request for additional capital, the Board reflected on the expected long-term benefit of the Group writing significant volumes of BPA business in future on the Group's resilience and positive long-term impact for investors and customer security.

The Board noted the indirect impact of the decision on the Group's sustainability strategy (specifically for 'Responsible Investment' through investment in illiquid assets) and resulting positive impact on the environment.

By considering financial analyses relating to the additional capital request (provided by management), the potential impact of the decision to the Group's reputation for high standards of business conduct could be ascertained and associated potential risks and opportunities understood.

The Group's investors were, of course, considered by the Board through consideration of the required Internal Rate of Return.

Consideration of wider stakeholders

Prior to the Board's decision, the Board Risk Committee considered regulatory expectations relating to the Group's solvency capital ratio, noting that there would be no related regulatory issues if the planned BPA transactions were completed.

Relevant risks and opportunities

Prior to the Board's decision, the Board Risk Committee reviewed risks relating to the increased allocation of capital, including potential impact on liquidity. The Board Risk Committee noted that appropriate mitigation existed to enable the Board to approve the request and ensure the Group remained within risk appetite.

The associated opportunities are outlined above under 'Consideration of matters under section 172 of the Act'.

Challenges faced when making the decision

The Board challenged the potential capital strain resulting from the allocation of additional capital, including in relation to future BPA transactions. The balance between temporary capital strain, long-term cash generation and growth of the Group was well considered as a result.

Outcome and impact of the decision

After due consideration of the matters set out in Section 172 of the Act, related risks and opportunities and the impact on wider stakeholders, the Board approved the allocation of additional capital for BPA investment transactions. This supported Phoenix achieving £950 million of new business long-term cash generation through the Group's Retirement Solutions business, having contracted £5.6 billion of BPA premiums during the year.

Example key Board decision

Approval of the acquisition of the Standard Life brand and wider transaction to simplify the Group's strategic partnership with abrdn.

Strategic priorities connection

Enhance our operating model and culture

Grow our business to support both new and existing customers

Innovate to provide our customers with better financial futures

How the Board reached its decision

Consideration of matters set out in Section 172 of the Act

When considering the proposal to acquire the Standard Life ('SL') brand, as part of a wider transaction to simplify the Group's strategic partnership with abrdn, the Board considered the strategic benefits of the transaction, including enhanced competitiveness of the Group's Open business as part of the long-term direction for Phoenix in support of the Company's 'wedge' hypothesis (see page 36 for more detail).

The Board considered the impact of the decision on customers, noting the consequence of a more consistent customer experience, additional digital service capabilities for customers and faster delivery of propositions designed to meet changing customer needs. This would enhance customer outcomes and service, thus supporting a reputation for high standards of business conduct.

The Board noted the resulting impact on colleagues, including removal of operational complexity associated with the Phoenix-abrdn cross-company working arrangements at that time. The Board also considered a subsequent increase in control for management in relation to sales and marketing processes for the Open business, supporting the Group's culture of empowerment and innovation.

The Board considered the interests of investors and need to ensure clear communication of the rationale for action. The Board noted that the impact of the decision would include sustainable long-term cash generation and support for the Group's 'wedge' hypothesis – an important message for investors to understand the future potential success of the business.

Consideration of wider stakeholders

A key stakeholder considered as part of the Board's decision to approve the transaction referred to above was abrdn as a strategic partner of Phoenix. The Board reflected on the ability to enhance the relationship with abrdn by significantly simplifying the arrangements of the strategic partnership between both parties. The new arrangements would enable continued use of abrdn's asset management services in support of Phoenix's growth strategy, for the benefit of the Group's stakeholders.

Relevant risks and opportunities

Prior to the Board's decision, the Board Risk Committee considered the impact on operational and conduct risks for the business. It was noted that the transaction would reduce the Group's exposure to these risks and also exposure to strategic risk in respect of the Open business strategy.

The associated opportunities are outlined above under 'Consideration of matters under Section 172 of the Act'.

Challenges faced when making the decision

The Board Risk Committee noted the challenges expected as a result of the Board's decision to approve the transaction, including the complexity of the transaction itself and subsequent activity required for the separation of processes and implementation of the associated change programme. The Board considered these challenges as reported by the Board Risk Committee.

Outcome and impact of the decision

After due consideration of the matters set out in Section 172 of the Act, related risks and opportunities and the impact on wider stakeholders, the Board approved the acquisition of the Standard Life brand and wider transaction to simplify the Group's strategic partnership with abrdn. The Group was able to announce that Phoenix Group Holdings plc and abrdn had entered into a new binding strategic partnership agreement in February 2021, including the Group's ownership of the Standard Life brand. Since this announcement, the Group has continued to enhance our Open business and customer propositions for the benefit of stakeholders.

Engagement in action – listening to the colleague voice

Report from the Designated Non-Executive Director for Workforce Engagement

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.

Evolving our culture
The business has grown significantly over the past few years, and it has been important for Phoenix to create a single culture for our colleagues to identify with. A key strategic priority for the business has been to evolve the different heritages that our colleagues have come from into a common and clear purpose-led culture.

Throughout 2021 we have continued to support our colleagues in navigating the unprecedented external environment, with colleague wellbeing at the heart of this. This year we launched our future ways of working model, which centred on enabling colleagues to work in a more agile way whilst managing the needs of the business and maintaining a strong customer service proposition. Alongside this, significant focus has been placed around our sustainability agenda, which is a topic that is incredibly important for both our colleagues and customers.

A further strategic priority is ensuring that we create a culture and environment where all colleagues feel that they belong, they are valued, and they can speak up confidently. Through the rollout of our 'Who We Are' app, and by moving to a monthly engagement survey that enables continuous listening, the Executive Team and the Board have been able to gain a more granular level of insight into how our colleagues are experiencing working at Phoenix. This insight has enabled us to understand better and act quickly to support our colleagues.

How the Board has engaged with, and monitored the Group's approach towards support and inclusivity for colleagues in 2021
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 possible outcomes.

In my role as the Designated Non-Executive Director for Workforce Engagement, I carried out a programme of virtual and in-person visits and sessions across the business this year. In early 2021 the Phoenix Colleague Representation Forum (PCRF) was established. This is a colleague-led forum made up of colleague representatives from each of our functions that I meet with quarterly to speak directly to colleagues. Partnering with the PCRF has resulted in improved engagement with colleagues, enabling direct, honest and open conversations and more frequent feedback promoting continuous listening through a variety of channels.

The following key themes discussed with colleagues throughout the year.
- Organisational change agenda: The impact of large-scale change projects and the Group's overall change agenda.
- Sustainability: The Group's evolving approach and key actions towards becoming a market leader in this space.
- Diversity & Inclusion: The steps we are taking to recognise our differences, making sure everyone feels valued and to build out our demographic understanding of our colleague base.
- Continuing our support in response to COVID-19 and colleague wellbeing: Focusing on colleague wellbeing, engagement levels and additional support measures provided to mitigate the impact of the pandemic and periods of lockdown.
- Future Ways Of Working: Our approach and the value of empowerment.

A broad spectrum of colleagues were invited to join to present and take part in the various discussions and meetings throughout the year. After the quarterly meetings, the PCRF representatives share feedback with colleagues and key items are included within a PCRF newsletter. I also share regular feedback from these sessions to the Board, which provides additional perspective and insights on colleagues to the Board, including colleague wellbeing, their views on the change agenda and the evolution of the Group's strategy as a sustainable business, underpinned by a clear purpose to help people secure a life of possibilities.

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's important to our colleagues and the impact of Board the decisions.

Quote from Sara Thompson, Group HR Director: "As the Group's HR Director, I regularly update the Board on our people and culture agenda. All of our colleagues are core members of our team, and together we continually enable the business to grow and succeed. Phoenix isn't just our employer, it is 'our place', and that's the experience we endeavour to give all of our colleagues – 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. Working closely with Karen has been a key enabler this year. Our partnership means that we're also able to leverage the feedback cycle. By using insights from our continuous listening strategy, we effectively share and distribute updates. Karen shares insights on the Board's activities and hears feedback from colleagues, escalation of matters raised at engagement sessions to Group Chief Executive Officer/ExCo comes via me, and I also attend with Karen, and our PCRF reps share feedback/insights from colleagues with Karen."

"Meetings with Karen have enabled really great two-way engagement between the Board and colleagues. We've been able to hear about the Board's activities and priorities as well as provide questions and insights from colleagues in our areas. I think the ability for lead reps to share so openly with Karen speaks volumes about the culture at Phoenix. We really are able to be honest about the good and the not so good times even with the most senior members of the business. I think that credit is due to the Board and our senior leaders for creating an environment where there is a genuine sense of psychological safety. Credit is also due to colleagues for being brave enough to ensure dialogue about things that matter to us in our working lives. Personally, I was able to collate colleague insights ahead of the meeting by circulating the agenda topics and letting people know that this was a great opportunity to let the Board know our thoughts, feelings and ideas. I had a good response rate and even from more senior members of my areas. Following the meeting, I wrote to each colleague who contacted me to loop back on the feedback they provided and informed them of relevant highlights from the meeting." Sarah O'Reilly Lead Rep – Corporate Affairs & Investor Relations/ General Counsel

Karen Green
Designated Non-Executive Director for Workforce Engagement

"It's been brilliant to hear things directly from Karen as it brings some of the initiatives to life a bit more as well as showing her personal interest in the items she raises. This allows us to put questions directly that may not come up via the usual channels in an unfettered manner."

Ted Batham
Lead Rep – ALPHA IT

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 understand the role they play as individuals, and as a collective, to ensure the long-term success of the Company and achievement of the Group's purpose. As a matter of good governance, the Board ensures the appropriate division of responsibilities on the Board, ensuring no existence of unfettered power nor over-reliance on any one person. 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

Chairman

Nicholas Lyons is Chairman of the Board of Phoenix Group Holdings plc.

The Chairman 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 CEO and the Board as a whole.

The Chairman's external commitments are set out on page 74 within this report. The Chairman was independent upon appointment and was appointed on the basis of committing two days per week to the Group.

Chief Executive Officer

Andy Briggs is Group Chief Executive Officer of the Company.

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 Group Chief Executive Officer's external commitments are set out on page 74 within this report.

Senior Independent Director

Alastair Barbour 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 Chairman's performance by the Non-Executive Directors (For 2021, the process concluded with a meeting of the Non-Executive Directors without the Chairman present. The review determined that the Chairman was a very effective leader of the Board.);
- acting as the sounding board for the Chairman;
- serving as an intermediary between the Chairman and the other Directors as necessary; and
- ensuring an orderly succession process for the Chairman.

The Senior Independent Director's external commitments are set out on page 74 within this report.

Designated Non-Executive Director for workforce engagement

Karen Green is the Designated Non-Executive Director for Workforce Engagement.

The Designated Non-Executive Director for Work-force Engagement 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.

Independent Non-Executive Directors

The Board considers the following Directors to be independent:

- Alastair Barbour
- Karen Green
- Wendy Mayall
- John Pollock
- Belinda Richards
- Nicholas Shott
- Kory Sorenson.

The Board has considered the criteria proposed by the UK Corporate Governance Code in assessing the independence of the Directors.

Shareholder nominated Non-Executive Directors

Hiroyuki Iioka and Mike Tumilty are Shareholder Nominated Non-Executive Directors. Hiroyuki Iioka is appointed to the Board on behalf of MS&AD Insurance Group Holdings Inc. and Mike Tumilty is appointed to the Board on behalf of abrdn plc.

As substantial shareholders with holdings of over 10% of Phoenix's issued share capital, MS&AD Insurance Group Holdings Inc. and abrdn plc are each entitled to appoint a representative Non-Executive Director to the Group Board.

Full descriptions of the roles and responsibilities of the Chairman, Group Chief Executive Officer, Senior Independent Director and Designated Non-Executive for Workforce Engagement are available on the Company's website.

Board member appointment terms
Terms and conditions of appointment of our Non-Executive Directors are on the Group's website. The terms of appointment for Directors state that they are expected to attend in-person regular (at least six per year) and additional Board meetings and to devote appropriate preparation time ahead of each meeting. The remuneration of the Directors is shown in the Directors' Remuneration Report on pages 106 to 136.

2021 Board and Committee meeting attendance
The Board met formally eight times during 2021, including for a two-day strategy setting meeting. The Board met additionally for regular briefing meetings to continue to monitor the impact of the pandemic on Phoenix and ensure oversight of achievement of the Group's strategic objectives. The Non-Executive Directors met with the Chairman six times without Executive Directors present.

The following Board and Board Committee attendance is for all formal Board and Board Committee meetings held during 2021. The Nomination Committee has confirmed its absolute satisfaction with the time and commitment given to Phoenix by all Directors.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Sustainability Committee
	Actual/Max	Actual/Max	Actual/Max		Actual/Max	Actual/Max
Chairman						
Nicholas Lyons	8/8				7/7	
Executive Directors						
Andy Briggs (CEO)	8/8					
Rakesh Thakrar (Group CFO)	8/8					
Non-Executive Directors						
Alastair Barbour	8/8	10/10	11/12		7/7	
Karen Green	8/8	10/10		7/7		7/7
Hiroyuki Iioka	8/8					
Wendy Mayall	8/8		12/12			7/7
Christopher Minter[1]	4/4					
John Pollock	8/8	9/10	12/12			
Belinda Richards	8/8		12/12	7/7		
Nicholas Shott	8/8	10/10		7/7	6/7	7/7
Kory Sorenson	8/8		12/12	7/7	7/7	7/7
Michael Tumilty	8/8					6/7

1 Christopher Minter resigned from the Board on 25 June 2021

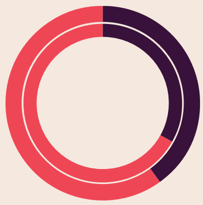
In addition to the above, the Board's ad-hoc M&A Advisory Committee, comprised of Nicholas Shott (Chair), Alastair Barbour, Karen Green and Belinda Richards, met eight times during 2021.

Board support
All Board Directors have access to the advice and services of the Group Company Secretary and their team to support the discharge of their duties and on matters of governance. Appropriate policies, processes, information, time and resources are available to the Board to ensure its effective and efficient operation. During the year, the Board reported 'strong satisfaction' with support provided by Company Secretariat. Company Secretariat ensure accurate and timely records of Board and Board Committee meetings throughout the year, enabling unresolved concerns of Directors (about the operation of the Board or the management of the Company) to be duly recorded. No such concerns were communicated during 2021.

Board composition and development – set up for success

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. An overview of the Board's composition is set out within the charts on this page.

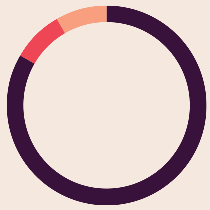
Gender balance (including Chairman)



Female	40% (outer)	33.3% (inner)
Male	60% (outer)	66.7% (inner)

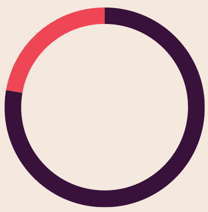
Outer Ring – Excludes shareholder nominated Directors.
Inner ring – Full Board including shareholder nominated Directors.

Ethnicity (including Chairman)



White (English/Irish/Other)	83.3%
Asian (Indian)	8.3%
Asian (Other)	8.3%

Independence of Non-Executive Directors (not including Chairman)



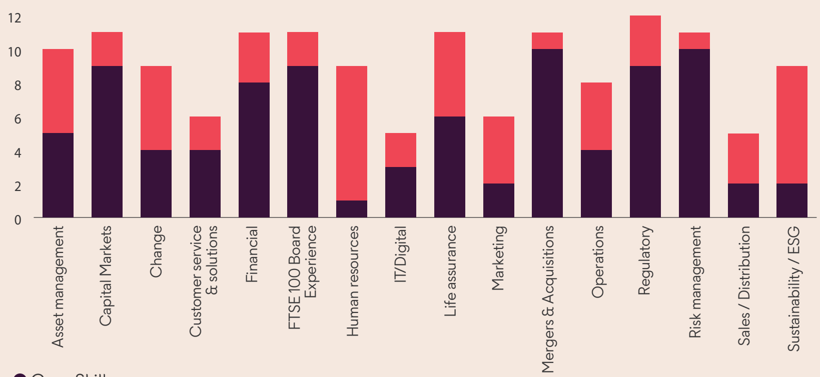
Independent	77.8%
Non-Independent	22.2%

Tenure of Directors (including Chairman)

0–3 years	33.3%
3–6 years	50%
6–9 years or more	16.7%

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.



- Core Skills
- Secondary Skills

Board evaluation highlights

- The Board is constructive, supportive and challenging to management and functions strongly as a unit, led by its well-regarded Chairman, who has the clear support of the Board.
- There is a healthy respect of different views and recognition of the different skills brought to the Board table.
- The Board provides an energetic sense of optimism and determination to succeed, with strong support for, and confidence in, the CEO and also the CFO and wider management team.
- Good discussions are held in relation to ESG and culture, strongly supported by the creation of the Board Sustainability Committee.
- There is a desire for continual improvement, and there is a strong succession process, led by the Chairman, supported by the Skills Review undertaken during the year.
- Board gender diversity is good; greater ethnic and age diversity is desired.

Timeline of Board education

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 2021.

Jan 2021

Taskforce on Climate related Financial Disclosure ('TCFD')
Current climate science, risks and opportunities; market, regulatory and investor expectations; insurance sector response to climate risk; potential impact and relevance to purpose; progress and next steps; and board roles and responsibilities on climate risk.

Senior Managers and Certification Regime ('SMCR')
Refresh on SMCR and business update; individual conduct rules; reasonable steps, including the statutory duty of responsibility; and Q&A.

Mar 2021

Cyber
'Cyber security' and 'cyber resilience'; the threat landscape (ransomware; impacts of cyber-crime; and threat scenarios); and the role of the Board (governing cyber risk and regulatory focus).

Phoenix Harmonised Internal Model
An update on the Group's Harmonised Internal Model Application; material limitations of the Harmonised Internal Model; and an update on Risk's Harmonised Internal Model Validation activity.

Jul 2021

Strategy
Various matters considered within the context of the two-day strategy offsite.

Aug 2021

TCFD
Climate scenario analysis and the journey so far; Climate Biennial Exploratory Scenario ('CBES') exercise; regulatory expectations with regards to Governance and Board engagement; and how the CBES exercise will support Phoenix's wider climate scenario work.

Oct 2021

Digital
The Group's Digital strategy, covering culture; process; business model and technology.

Nov 2021

TCFD
Climate-related metrics and targets landscape; approach to developing the Group's climate-related metrics and targets framework; recommended metrics for FY21 disclosure and plans for FY22 disclosure; the Group's implementation plan; and target setting.

Cyber
The Group's IT architecture; the Group's Cyber strategy and approach; benchmarking and driving improvement; the cyber threat landscape; and a Board ransomware workshop.

Nomination Committee report

Q&A with the Nomination Committee Chair, Nicholas Lyons

Q. What were the key highlights of the Nomination Committee activity during 2021?
A. Strong progress of our dynamic succession planning, considering the skills we need to keep driving our Board performance higher against an evolving background and looking to enhance diversity in all respects.

Q. What challenges has the Nomination Committee faced during 2021?
A. The Board and Committees responded with agility to the challenges of the pandemic which required us to adapt the format of our meetings quickly. This we did seamlessly with outstanding commitment from the Board and extremely high attendance levels. We have placed additional emphasis on our strong cultural values as we integrated new colleagues from ReAssure and many other new hires in our Open and Investment business especially when so much of the year required virtual communications and remote working.

Q. How has the Nomination Committee approached succession planning during 2021?
A. By focusing on the skills required to oversee our growing Open business and Investment Oversight division, on enhancing diversity of all kinds at senior levels of the firm and on planning for Board changes early, we have ensured that we have identified excellent candidates in good time to provide a helpful period of overlap with the upcoming departure of Directors and senior executives.

Q. What do you see as the Nomination Committee's key areas of focus in 2022?
A. Continued forward-looking succession planning as well as being agile in changing current plans if appropriate. Broadening our skill set and cognitive diversity as we refresh the Board, the Senior Independent Director and chairs of committees of the Board. We will continue to monitor the excellent progress of the Sustainability Committee as we embrace our stewardship and broad societal responsibilities.

Q. How has the Nomination Committee considered Board composition and diversity and inclusion during the year?
A. We undertook a Board skills review to ensure we have the breadth of skills needed to oversee our strategy and have enhanced the quality of the Board and senior management through hiring candidates that add diversity of experience, skills and perspective. We prioritise this in all mandates with search firms and ensure that they, as suppliers of services to Phoenix, are aligned with these aims. To that end, changes to our Board in 2022 will all bring an element of diversity that will enhance performance.

Members
Nicholas Lyons (Chair)
Alastair Barbour
Nicholas Shott
Kory Sorenson

Key Nomination Committee activities in 2021
- Board and senior executive succession planning.
- Board Skills Review.
- Non-Executive Director recruitment – actual and planned.
- Talent, capability, diversity and inclusion reviews.
- Review of Directors' time commitment to Phoenix.

The composition of the Nomination Committee is in accordance with the requirements of the UK Corporate Governance Code ("the Code") that a majority of its members should be Independent Non-Executive Directors. The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors; succession planning for the Board and senior management, focused on the development of a diverse succession pipeline; and making recommendations to the Board on these matters.

The Nomination Committee met seven times in 2021. Non-Executive Director recruitment in 2021 paid heed to the externally-facilitated December 2020 Board evaluation review which concluded as follows:

"The Board is quite large, partly because it includes three shareholder appointees. The Board should not get bigger, yet it will need to manage some conflicting objectives, over time, including:
- Continuity, especially given the current excellent performance, technical skills and balance
- Increasing the degree of real diversity (in backgrounds, age and ethnicity)
- Strengthening open book experience and instincts, customer insights and digital skills.

The Board should remain largely settled as it oversees this critical period in PGH's development."

The Board skills review, which we undertook internally during the second half of 2021 concluded as follows: "This is a strong skills review, showing the high level of skills in the expected categories and the wide breadth of skills across the Board." The review then highlighted areas for strengthening the Board which broadly aligned to those raised by Consilium and feature very strongly in our succession planning and ongoing recruitment of Non-Executive Directors.

During 2021, the Nomination Committee was very active in its consideration of non-executive succession, which following further consideration by the full Board, has led to:

- The appointment of Alastair Barbour as Interim Chair during the Chairman's anticipated sabbatical as Lord Mayor of the City of London from September 2022 to November 2023, subject to regulatory approval.
- The appointment of Karen Green as Senior Independent Director from our AGM in May 2022, subject to regulatory approval.
- The appointment of Katie Murray as a new Non-Executive Director from April 2022, bringing not only excellent and relevant skills and experience but also diversity of age and gender and through holding a current executive position as the CFO of a major UK bank.

The standard process used by the Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Group and, in the case of executive appointments, also considers internal candidates. Detailed assessments of shortlisted candidates are undertaken by the search consultancy, followed by interviews with Committee members and other Directors and the sourcing of references before the Committee recommends the appointments to the Board.

The Board supports and complies with the Hampton-Alexander guidance for FTSE 350 companies that the Board should be comprised of at least 33% female directors. The Board supports and complies with the guidance of the Parker Review for FTSE 100 companies that there should be at least one "director of colour" on the Board by 2021 (see pages 74 to 76 for Our Board of Directors).

The Board's policy on diversity is as follows:

- The Board promotes the enhancement of diversity, including gender, as a consideration when recruiting new Directors.
- The Board intends to comply on a continual basis with the Hampton-Alexander guidance 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 colour" on the Board.
- The Board's overriding aim is to appoint the right Directors to the Board to drive forward the Group's strategy within a robustly compliant framework.
- The Board will undertake regular skills audits to ensure the Board's skills remain appropriate for its strategy and providing diversity where possible.

The Nomination Committee has been instrumental in increasing gender diversity on the Board and 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 is contained in the Strategic Report on page 44.

A further activity for the Nomination Committee was to review the time spent by Directors in fulfilling their duties. This concluded that the time given by Directors in 2021 exceeded the level expected in their appointment terms.

To ensure that the Directors maintain up-to-date skills and knowledge of the Group, all Directors receive regular presentations on different aspects of the Group's business and on financial, legal and regulatory issues. All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board.

In accordance with the provisions of the Company's Articles of Association and the Code, all Directors will submit themselves for election or re-election at the Company's AGM on 5 May 2022.

Alastair Barbour will reach a tenure of nine years on the Board in October 2022. As stated above and in the Group's market announcement of 23 February 2022, the Board has agreed that, subject to regulatory approval, Alastair Barbour will assume the role of interim Chairman from 1 September 2022 until November 2023, being the term of Mr Lyons' sabbatical from the Board while he undertakes the role of Lord Mayor of the City of London. The Board believes that not only is Alastair Barbour the best appointee for this interim role, but also that his longstanding knowledge and commitment to Phoenix will ensure a consistent approach to Board matters.

Board evaluation review

In accordance with the Code, an evaluation of the performance of the Board and that of its Committees and individual Directors was undertaken in the latter part of 2021. The process was led by the Chairman and internally facilitated by the Company Secretary. The process involved completion by Directors of a questionnaire covering various aspects of Board, Committee and Director effectiveness followed by individual meetings between the Chairman and each Director, concluding in a Board report which was discussed by the Board in November 2021. The focus of the review was to consider ways for the Board to manage its time most effectively to drive strategy and monitor performance in a robustly compliant manner. The review concluded that the Board is constructive, supportive and challenging to management and functions strongly as a unit, led by its well-regarded Chairman, who has the clear support of the Board; and that there is a healthy respect of the different views and recognition of the different skills brought to the Board table. Actions arising from the review were consistent with this theme, underlining the Board's desire to continue to focus on strategy and the Group's future as a growing Heritage and Open business. The Directors emphasised that nothing is materially wrong in the Board dynamic or process. However, we strive to be a Higher Performing Organisation in all areas and there are several recommendations to secure incremental improvements. These largely focus on driving strategy, achieving the most from the Board's time together and providing the Board with the right information succinctly. These process-centred actions are being taken forward in 2022.

Nicholas Lyons
Chairman

Audit Committee report

Q&A with the Audit Committee Chair, Alastair Barbour

Q. What were the key activities of the Audit Committee activity during 2021?
A. Foremost on our agenda has been: ensuring that our financial reporting whether publicly or for regulatory purposes is accurate and transparent for our shareholders and investors; oversight of the assessment of internal financial controls and, planning ahead, a successful audit tender for 2024 recognising that our current auditors, EY, will be leaving us after the 2023 audit. Clarity of reporting is an ongoing area of focus for the Committee and we believe that this continues to be enhanced, as is a focus on the control environment. I am comfortable that an extremely thorough audit tender process has occurred with KPMG LLP being recommended to the Board as our preferred auditor for 2024, subject of course to the approval of shareholders at the AGM following the 2023 year end.

Q. What challenges has the Audit Committee faced during 2021?
A. The key challenges have included the oversight of the Risk Management Framework and the control environment supporting it in a period when substantially all of our staff have been working from home, together with the pressures from an expanded Group and our ambitious integration plans plus a background of a very volatile economic environment.

Q. How has the Audit Committee engaged with Internal Audit during 2021?
A. Interaction with the Internal Audit function has always been extremely important for the Audit Committee as it provides an independent view and perspective on our business, plus important guidance on which the Committee can rely. There is regular formal reporting from Internal Audit to the Committee, plus ongoing dialogue held outside of the scheduled meetings for me with the Head of Internal Audit who is also accessible to all Committee members.

Q. What do you see as the Audit Committee's key areas of focus in 2022?
A. In addition to financial reporting and ensuring the control framework remains fit for purpose as our ambitions and key projects evolve, the main focus will be on the preparation for and implementation of IFRS 17.

Q. How has the Audit Committee monitored the Group's whistleblowing arrangements during the year?
A. Biannually, the Committee receives formal updates from the Group's General Counsel on whistleblowing activities and the operation of our processes to enable confidential reporting plus, if necessary, involvement in the assessment and resolution of individual matters raised in accordance with our established policy.

Members
Alastair Barbour (Chair)
Karen Green
John Pollock
Nicholas Shott

Key Audit Committee activities in 2021 and to the date of this report
- Reviewed the Company's 2021 Annual Report and 2021 Interim Financial Statements.
- Group External Audit Tender process undertaken with KPMG LLP being recommended for appointment as the Group's External Auditor for the financial year ending 31 December 2024.
- Considered and reviewed the actuarial processes, methodologies and assumptions.
- Considered regular updates on the 2021 Internal Audit Plan.
- Reviewed and monitored the effectiveness and independence of the Company's External Auditors.

Audit Committee role and focus

The composition of the Audit Committee (also referred to as the 'Committee') is detailed above and is in accordance with the requirements of the UK Corporate Governance Code 2018 ('Code') and also with DTR 7.1.1AR. The Board has confirmed that all four members of the Committee are considered to be Independent Non-Executive Directors. In accordance with the Code, Alastair Barbour and Karen Green are considered to have recent and relevant financial experience. Also, in accordance with DTR 7.1.1AR, at least one member of the Committee has competence in accounting and/or auditing as well as the members as a whole having competence relevant to the insurance industry.

The Committee met ten times during 2021. Its meetings are attended by the Chair of the Risk Committee (who is also a member of the Audit Committee), the Group Chief Financial Officer, the Group Financial Controller, the Group Head of Internal Audit, the external auditors and usually also by the Group Board Chairman 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.

Audit Committee's principal activities during 2021

Throughout 2021 the Group has been going through a period of change and challenge with the ongoing transition activities arising from the acquisition of both Standard Life Assurance and the ReAssure Group as well as the impact on the Group of COVID-19. Oversight of the impact of these on the control environment and financial reporting has been a key activity of the Committee as well as considering and taking into account the continued turbulence surrounding various macroeconomic factors, leading to volatility in the financial markets and their consequent impact on the Group's financial assets and liabilities. Against this backdrop, the main focus for the Audit Committee continues to be oversight of the integrity of the Company's financial statements and the soundness and effectiveness of the Group's systems and controls, together with monitoring the effectiveness of both the Internal and External Auditors.

In December 2021, following a robust and thorough tendering process, the Group Board formally approved the appointment of KPMG LLP as the Group's External Auditor for the financial year ending 31 December 2024. More detail on the process undertaken is shown below under the section 'Auditor's Appointment'.

The following were the key areas of focus for the Audit Committee during 2021 and to the date of this report:

- Receiving and reviewing the Annual Report and Accounts, the Solvency and Financial Condition Report and other financial results, statements and disclosures, and recommending their approval to the Board.
- Monitoring the overall integrity of 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 on the changes within the Finance and Actuarial function which has been required to ensure that the resource framework aligns with the strategic direction of the Group.
- Oversight of activities of subsidiary audit committees through receipt and 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 his receipt of all papers going to the Phoenix Life Companies Board Audit Committee. 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 2021 and up to the date of this report, the Audit 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 2020 and 2021 Annual Report and Accounts, and 2021 Interim Financial Statements, recommending their approval to the Board, as well as related disclosures and the financial reporting process, supported by reports from management and the External Auditors.
- Reviewed the Group's annual Solvency II results and the Solvency and Financial Condition Report, recommending their approval 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 100. 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 matters assessed by the Group's External Auditors as set out in their audit opinion on pages 144 to 154. 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, 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 Equity Release Mortgages, Matching Adjustment considerations, Taskforce on Climate-related Financial Disclosures reporting and IFRS Acquisition Balance Sheets.
- Received regular briefings as to the progress of the IFRS 17 implementation project and held focused education sessions on the impacts of the revised accounting standard.
- Received regular updates from Company management, Internal Audit and External Audit as to the impacts of COVID-19 and the implementation of remote working practices on the Company's accounting, reporting and internal control activities. Assessed that those processes remained fit for purpose in supporting the Company's financial reporting and disclosure obligations throughout 2021.
- The Group's Annual Report and Accounts 2020 were included in the FRC's sample for its limited scope thematic review on IAS 37 Provisions, Contingent Liabilities and Contingent Assets disclosures. The Group subsequently received a letter from the FRC's Corporate Reporting Review team noting they had no questions or queries that they wished to raise at this stage and recommending improvements for consideration in the 2021 financial statements. The Committee noted that further enhancements have been made to disclosures in relation to provisions in the 2021 financial statements in line with the recommendations made. An FRC review provides no assurance that the Group's Annual Report and Accounts 2020 were correct in all material respects. The FRC's role was not to verify the information provided but to consider compliance with reporting requirements. Its letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance

on them by the Group or any third party, including but not limited to investors and shareholders

External Audit

A key part of the role of the Audit Committee is the review and oversight of the work of the Group's External Auditor. The Committee reviewed and discussed various reports from the External Auditor throughout 2021, including the 2021 Audit Plan, progress reports against that plan, and a report on their audit procedures on the 2021 annual IFRS and Solvency II results, and their interim review of the half year 2021 IFRS results.

The Committee considered throughout 2021 and for the 2021 audit, the effectiveness, engagement and remuneration of the current External Auditors. See 'Assessment of the effectiveness of the external audit process' and 'Auditor's Appointment' on this page and page 99.

The External Auditor partner attended all Audit Committee meetings during 2021 and to the date of this report, presenting reports on the external audit process, 2021 year end and 2021 interim results, a hot-topics survey and assessments on methodology and actuarial assumptions. The External Auditor provided details on benchmarking with regard to assumptions setting as well as challenging and providing guidance on reporting matters and disclosure requirements. 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 External Auditor's independence was reviewed and monitored against the Group's External Auditor policy, including their provision of non-audit services – see Auditor's Independence and External Auditor Policy on page 99. This included an assessment of their independence and a review of services provided by EY during the 2020 and 2021 financial years.

The Audit Committee also considered matters pertaining to the mandatory rotation of the external audit firm – see Auditor's Appointment on page 99.

Internal audit

During 2021, the Audit 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 plus 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. 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 2021.

Internal control

The Committee is responsible for supporting the Board in ensuring a robust system of internal control and risk management systems is in place. In supporting this framework, the Committee receives regular reports on the status of the control environment and updates on the management of the risks and controls across the Group's Risk Management Framework. The Committee receives biannually control reports from Line 2 (Risk) through the internal control assessments from Group Risk as well as the Line 3 (Internal Audit) internal control environment opinions. These reports provide assessments of the control environment metrics including: any risks that are reported to be outside of appetite; the action plan to bring within appetite; the status of Internal Audit opinions and any key issues identified and emerging trends and themes for the Committee to focus on going forward.

The Committee throughout 2021 reviewed the internal control environment regularly and challenged management to ensure clear rectification plans were incorporated where there were any weaknesses or failings reported. The Committee will continue to monitor closely the internal control framework throughout 2022 to ensure it is appropriate as the Company continues to deliver on its strategic aims.

Audit Committee's performance

In 2020, Consilium were appointed to undertake an external effectiveness review of the Board and its Committees which included positive feedback that the Audit Committee operated extremely effectively. In 2021, the Committee undertook an internal effectiveness review whereby aside from the members of the Committee, members of management were also requested to provide input including regular attendees. From that review it was concluded that overall the Committee works effectively and focuses on the right issues.

General

The other areas that the Audit Committee covered throughout 2021 included the following:

- Whistleblowing arrangements within the Group as well as any whistleblowing activity where an employee raised concerns, in confidence, about any possible improprieties. During 2021 there were a total of 12 concerns reported to the Speak-Up Office of which five were triaged as "whistleblows", it was noted that there appeared to be no material wrongdoing, however on-going oversight/monitoring has been put in place.
- Reviewed and approved updates to the Group Tax policy, Group Tax strategy, Group External Auditor policy and the Group Liquidity & Funding policy.

Auditor's appointment

During 2021, the Audit Committee continued to review the requirements for tendering of audit services for the Group and its subsidiary companies. Recognising that the mandatory rotation of EY as auditor for one of the Group's major Life Companies would be required for the 2024 financial period, the Committee approved an external audit competitive tender process to take place in 2021.

The Committee considers that early identification of the future Group auditor would facilitate safeguarding of independence and cooling in requirements, given the Group's extensive finance agenda. An early selection of a new auditor is deemed important as it will allow the Group to carefully manage the services performed by the selected firm in the run-up to their assuming appointment as External Auditor, and in addition to manage the fact that there have been certain commercial insurance relationships as workplace pension scheme provider that create challenges in this regard. The process undertaken was carried out in accordance with the Phoenix Group policies for the evaluation and selection of critical services and suppliers and the guidance issued by the Financial Reporting Council. To ensure a transparent, independent, impartial and robust tender process, a three-level Governance model was put in place with clearly defined roles and responsibilities for each group, comprising:

- the Audit Committee,
- a Selection Committee (chaired by the Chair of the Audit Committee and comprising members of the Phoenix Life Companies Board and Group Audit

Committee, and members of the Group, Life and European management) and
- the management team.

Any conflicts of interest for parties contributing to the evaluation process were considered and conflicted parties were not involved in the decision process.

As part of planning for the tender process, the Group Chief Financial Officer and Group Financial Controller met with a number of firms to discuss the tender process, business requirements and independence considerations; these included representatives from the 'big four' accountancy firms, and also a number of mid-tier firms. To meet the Group's requirements from a timetabling, resourcing and industry specific knowledge perspective, it was concluded following such meetings, and with the agreement of the parties consulted, that the performance of the Group audit would likely be unfeasible for the mid-tier firms consulted who subsequently were not invited to the tender process.

Invitations to tender were sent out to two firms in August 2021. This was followed in October 2021 by the issue of formal Requests for Proposals and a programme of Management meetings which were held in November 2021 with the two tendering firms. Each firm had separate meetings with senior members of the key functions of the Group and the Group and Phoenix Life Companies Board Audit Committee Chairs.

The Committee approved a scoring methodology based on predefined criteria each weighted according to relative importance and management completed the scorecard based on their experiences with each of the firms at the management; the methodology was also used to assess written proposals submitted by the tendering firms. Presentations were made by the two firms in December 2021 to the Selection Committee. Key factors considered in assessing the firms included:
- capability of key team members;
- communication and presentation skills
- audit quality
- the Group's change agenda
- commitment; and
- independence.

Having considered the scoring criteria, key factors, input and observations from the Selection Committee and the presentations themselves, the Committee recommended to the Board that KPMG LLP be appointed as the Group's External Auditor for the financial period ending 31 December 2024, subject to shareholder approval.

EY LLP

Under the Audit Ethical Standards, signing audit partners for public interest entities should retain the role for up to five years. Although Stuart Wilson has acted as signatory for the Phoenix Group audit for only three years, prior to his current role he was audit partner for Phoenix Life Limited, meaning his association with the Group is now five years. In view of the extensive change programme within the Group, the Committee have requested an extension to Stuart Wilson's tenure as group audit partner in order to safeguard the quality of the audit, which is permissible under the Audit Ethical Standards. EY have confirmed that Stuart Wilson could continue as lead audit engagement partner for the 2022 financial period, subject to shareholder approval of EY as auditor for that financial period at the next AGM.

EY has been auditor to the Company since December 2018. EY has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 5 May 2022.

Assessment of the effectiveness of the external audit process

The 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 insignificant valuation assumptions and supporting analysis, and the ability of the audit team to demonstrate that they had applied professional scepticism in their dealings with management;
- a comprehensive assessment and review of the External Auditor where feedback was received from management, 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; and
- consideration of the findings of external evaluations of EY, notably the findings from the Financial Reporting Council's Audit Quality Inspection Report.

Auditor's independence and External Auditor policy

The Company has an External Auditor policy which requires the Company and the external auditors to take measures to safeguard the objectivity and independence of the External Auditors. These measures are in respect of specific areas, such as secondments to management positions, or those which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external engagement partner.

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Committee. Furthermore, the Group's External Auditor policy prescribes a limit for fees associated with non-audit services of 70% of the average statutory audit fee for the three preceding years in line with statutory requirements.

In 2021, total fees of £13.9 million were paid to EY. Of this amount £11.5 million related to statutory audit fees of the parent and its subsidiaries, with a further £1.7 million incurred in relation to services provided pursuant to legal or regulatory requirements.

The remaining fees of £0.7 million relate to other services including review of the Group's interim report and the provision of assurance services over the internal controls relevant to financial reporting operating within certain of the Group's outsourced service providers. This gives rise to a non-audit to audit fee ratio under the EU Directive and Regulations of 6% for the 2021 year, and 8% 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 2021 have not impaired the independence of EY in its role as External Auditor.

Alastair Barbour
Chair of Audit Committee

Significant matters considered by the Audit Committee in relation to the financial statements	
Significant matters in relation to the 2021 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, 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. 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 Chairmen 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 Audit Committee considered 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. Key judgments including the impact of expense inflation and the allowance for cost efficiency initiatives were debated and challenged by the Committee as part of the approval process. 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 management's assessment of the impacts of economic volatility arising as a result of the global COVID-19 pandemic and separately of the impact of climate change. 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	The accounting adopted for the acquisition of the Standard Life brand that took place during the year was considered. The methodology and assumptions applied in determining the fair value of the brand were reviewed and approved by the Committee. In addition, 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 if 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.
Operating profit	The Committee reviewed the allocation of key items to operating profit to ensure the allocations were in line with the Group's operating profit framework and consistent with previous practice.
Climate risk	The Audit 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, including the impacts of COVID-19. This was part of a comprehensive assessment undertaken prior to the Committee recommending to the Board that the Group financial statements should be prepared on a going concern basis and that the disclosures with regard to the long-term viability of the Group were sufficient and appropriate.

Risk Committee report

Q&A
with the Risk Committee Chair, John Pollock

Q. What were the key highlights of the Risk Committee activity during 2021?
A. The Committee has focused on the key risks impacting operational resilience and the control environment. 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.

Q. What challenges has the Risk Committee faced during 2021?
A. 2021 has been a challenging year as the ongoing pandemic has impacted the economy, customers and colleagues. Our control environment remains robust but continues to be 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 and associated customer and conduct risks have remained high on the agenda. Remote working has been a key feature of the operating model this year and emphasis has been placed on colleagues' wellbeing and ensuring that the risk culture remains strong and embedded in managing internal risk and internal controls. Cyber risk exposure has been heightened during the pandemic due to remote working and through the growth of the open business – the impact of this on the risk profile has been considered by the Committee.

Q. How has the Risk Committee approached the Group's risk appetite monitoring during 2021?
A. 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.

Q. What do you see as the Risk Committee's key areas of focus in 2022?
A. The Committee will continue to focus on the wider impacts of COVID-19 and how this affects the risk profile; cyber resilience; conduct and customer risks; changes to the risk appetite and risk profile as the Group progresses with its strategic priorities; operational resilience; sustainability and climate change risks.

The conflict in Ukraine and related sanctions are being closely monitored by the Group, particularly in relation to customer, asset and operational implications. Whilst the conflict has increased cyber-attack threat levels, the Group's cyber controls are designed to repel a range of cyber-attack scenarios.

Q. How has the Risk Committee monitored the Group's Operational Resilience during the year?
A. We receive regular updates from the Group Chief Risk Officer and the Chief Operating Officer in respect of the Group's operational resilience. Furthermore, the Operational Resilience Framework is being progressed and embedded to align with the Regulators' rules and guidance published in March 2021. 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.

Members

John Pollock (Chair)
Alastair Barbour
Wendy Mayall
Belinda Richards
Kory Sorenson

Key Risk Committee activities in 2021

- Reviewed the development and embedding of the Operational Resilience Framework.
- Monitored the Group's risk appetite and the wider impact of COVID-19 on the risk profile.
- Reviewed the Group's Annual Own Risk and Solvency Assessment report.
- Reviewed and challenged the Group's Biennial Exploratory Scenario submission (jointly with the Board Sustainability Committee).
- Approved the Climate Change Risk Framework.
- Reviewed and approved the Group's Resolution Plan.
- Considered enhancements to further strengthen the Internal Control Framework.

The role of the Risk Committee

The role of the Risk Committee is to advise the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Group and the Group's capacity to manage and control risks within the agreed strategy. It advises the Board on all high-level risk matters.

The Committee met a total of 12 times in 2021 including six out of cycle meetings. The Committee is comprised of five Independent Non-Executive Directors.

The Committee's meetings are attended by the Chair of the Audit Committee, Alastair Barbour, which allows the review of internal control effectiveness to be managed through collaborative working and oversight.

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, Nick Poyntz-Wright, also periodically attends the Committee meetings to provide key updates, which helps to facilitate discussions relating to investment risk.

The Group Chief Risk Officer, Jonathan Pears, has full access to the Chair and the Committee and attends all Committee meetings. The Committee receives frequent reporting from the Group Chief Risk Officer 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 Group General Counsel and the Group Head of Internal Audit.

The evaluation of the performance of the Committee during 2021 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.

Risk Committee's principal activities during 2021

In addition to the key activities discussed in 2021, the Committee also:

- Reviewed adherence to the Group Risk Management Framework and considered the appropriateness of the Group's overall risk appetite statements.
- Received a number of updates and briefing sessions which covered cyber risk including a ransomware attack workshop that was undertaken by the full Board; customer and conduct risk; governance process around Bulk Purchase Annuity transactions; the Resolution Plan, as well as a deep dive session on emerging risks and opportunities that could impact the Group.
- Monitored progress against the 2021 Group risk function plan.
- Approved the Group market risk appetite limits.
- Considered the Group's risk appetite and capital risk appetite framework.
- Monitored compliance with 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 the operation of the Risk Management Framework. Details of the Risk Management Framework ('RMF'), for which the Risk Committee has oversight, are provided in the Risk Management section of the Strategic Report on pages 54 to 57.
- Reviewed the Operating Principles to ensure that they remained fit for purpose.
- Considered risks, issues and matters that are escalated from the Phoenix Life Companies Board Risk Committee.
- Reviewed reverse stress-testing analysis, completed and provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions.
- Informed the Remuneration Committee regarding the management of the Group's material risks to support their consideration of executives' Annual Incentive Plan awards.

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 UK Corporate Governance 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. An external review of the Internal Control Framework ('ICF') was undertaken during the year. The outcome of the review was presented to the Committee, concluding that the ICF remained robust and in line with industry practice. Enhancements are being made to further strengthen the ICF to meet the needs of the growing scale and complexity of the Group's structure and risk profile.

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 2021, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council. The assessment for 2021 was presented to the Board, following review by both Group Audit and Risk Committees, on 5 March 2021. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored by both the business and the Committees accordingly.

John Pollock
Chair of Risk Committee

Sustainability Committee report

Q&A
with the Sustainability Committee Chair, Karen Green

Q. What were the key highlights of the Committee's activity during 2021?
A. 2021 was the first year of the Board Sustainability Committee's operation. The Committee was focused on ensuring Phoenix is set up for success in realising and delivering on its sustainability strategy. The Committee also focused on developing its knowledge and understanding of key topics and external perspectives of the same; and evolving best practice.

Q. What challenges has the Committee faced during 2021?
A. The Committee undertook a half year review of its terms of reference to ensure the appropriateness thereof and refined its role and responsibilities after six months in operation. As a fast and ever evolving area, the Committee sought to put appropriate mechanisms in place to ensure that it is well advised on matters of sustainability as developments in this area emerge. This has been aided by a number of key management hires during the year, including our Chief Sustainability Officer and Head of Climate Change.

Q. How has the Committee approached monitoring the Group's culture during 2021?
A. The Committee has received updates from the Group HR Director on the Group's people strategy and action being taken to enhance diversity and inclusion within the business. The Committee also received colleague engagement management information to understand how colleagues felt in relation to topics such as 'mental wellbeing', 'delivering for our customers and stakeholders' and support offered to colleagues by the business.

Q. What do you see as the Committee's key areas of focus in 2022?
A. The Committee will continue to drive the Group's ambition to be a leader in sustainability and ensure tangible, measurable progress against the Group's sustainability strategy. The Committee will also continue to monitor developments in sustainability and provide oversight of regulatory compliance and actions being taken to enhance the Group's contribution to a more sustainable world.

Members
Karen Green (Chair)
Wendy Mayall
Nicholas Shott
Kory Sorensen
Mike Tumilty

Key Sustainability Committee activity highlights in 2021

- Review and challenge of the Group's sustainability strategy, for approval by the Board.
- Approval of the Group's Sustainability KPIs.
- Review of the Group's people strategy and monitoring of the Group's culture.
- Review and challenge of the Group's Climate Biennial Exploratory Scenario submission (jointly with the Board Risk Committee).
- Approval of the Group's Exclusions Policy, which enables Phoenix to exclude assets that do not align with our sustainability strategy (see the Group Sustainability Report for more details).
- Monitoring the implementation of the Group's Taskforce for Climate Related Disclosure ('TCFD') programme.
- Reviewing the Group's Modern Slavery and Human Rights Statement, for approval by the Board.
- Education sessions undertaken, including 'People Alpha', 'Carbonomics', 'Outcomes of COP26 and the UK's Climate Change Strategy' and a 'Customer Calls listening session'.
- Deep dive sessions undertaken, including discussions on the Group's approach and progress to the Community, Customer and Responsible Investment pillars of the sustainability strategy.

Role of the Sustainability Committee

The Committee, which met seven times during 2021, is responsible for assisting the Board in overseeing the Group's sustainability strategy, related activity and approach to Environmental, Social and Governance ('ESG') matters.

The Committee's duties include:

- ensuring the appropriateness of the Group's sustainability strategy;
- supporting the Board and Board Audit Committee 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; and
- 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.

The Committee is comprised of five Non-Executive Directors 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 Non-Executive Director of the Phoenix Life Companies Board as a standing attendee.

Other standing attendees of the Committee include the Group Chief Executive Officer, Group HR Director, Director of Corporate Affairs and Investor Relations and the Chief Sustainability Officer. During the year, the Group Chairman regularly attended Committee meetings.

Ensuring the success of our sustainability strategy

The Committee's activities, during 2021, covered all elements of the Group's sustainability strategy (covering our five pillars: customers; responsible investment; and our people, environment, suppliers and communities), grouped into the three focus areas set out in the table to the right and on the following page.

Key Committee activities	Impact/Outcome
Engaging people in their financial future	
Held a Customer Deep Dive session, focused on the Group's approach to improve financial education and digital literacy aimed at supporting financial wellness and inclusion and preventing the exclusion of sections of society. Attendance at a Customer Calls listening education session to observe customer experience feedback directly. This session involved a sample of calls, including how vulnerable customers were supported by the Group's dedicated vulnerable customer team.	Improved understanding of steps being taken by management to address financial inclusion and improve customer outcomes.
Consideration of benchmarking of Phoenix's sustainability related approach to customers when reviewing proposals for the 2021 sustainability strategy.	Management were encouraged to set stretching targets to enable Phoenix to enhance customer outcomes.
Approval of customer related targets and KPIs for 2021.	Strong results were delivered against the 2021 targets (see the Group's Sustainability Report for more detail).
Investing in the future we all want	
Review of the Group's Stewardship Policy, prior to approval by the Phoenix Life Companies Board.	The policy was approved by the Phoenix Life Companies Board in Q4 2021. The policy can be found on the Company's website.
Approval of the Group's Exclusion Policy, following a review of the related principles and cost versus benefit of the policy.	Clear direction for management to embed the Group's sustainability strategy and approach to responsible business within our investment portfolio.
Approval of responsible investment related targets and KPIs for 2021 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).
Held a Responsible Investment Deep Dive session, covering the Group's responsible investment road map for 2021 and activities such as external industry collaborations. External presentation on and focused discussion of Carbonomics.	Increased understanding of management actions with respect to the Group's related strategy and governance; stewardship; integrated ESG management and decarbonisation of investment portfolios; and insights into wider decarbonisation trends and the connected geopolitical landscape.
Review of interim carbon reduction targets for 2025 and 2030 for investment portfolios; and an overarching framework for decarbonisation.	Interim de-carbonisation targets have been set for Phoenix, including: (i) by 2025 a reduction of 25% in the carbon emission intensity of its investments; and (ii) by 2030 a reduction of at least 50% in the carbon emission intensity of its investments.
Leading by example	
People and culture – Investing in our people and culture	
Review of the Group people strategy, designed to support, and act as an 'enabler' for, the Group's purpose and 2021 enterprise strategy. Consideration of the Group's 'people vision' ('to make Phoenix the best place any of us have ever worked') and its connection with the Phoenix purpose to help people (including colleagues) secure a life of possibilities.	Enhanced understanding of the people strategy as an 'enabler' of the Group's purpose and strategy and the impact of this on existing colleagues.
Consideration of colleague engagement management information.	Understanding of colleagues' perspectives in relation to topics such as 'mental wellbeing', 'delivering for our customers and stakeholders' and support offered by the business; and insights into the tone of the Group's culture from the ground up.

Key Committee activities	Impact/Outcome
Leading by example (continued)	
People and culture – Investing in our people and culture (continued)	
External presentation on and discussion of 'People Alpha', focused on interpretations of diversity and enablers of psychological safety and creative collaboration.	Greater understanding of best practice on diversity and inclusion – breaking diversity down into representational, experience, and cognitive; and means to encourage psychological safety in the business.
Received reports from the Designated Non-Executive for Workforce Engagement.	Insights into the colleague voice, including areas of concern and positives experienced by colleagues ; and an enhanced understanding of the two-way engagement process between the Board and colleagues.
Approval of people related targets and KPIs for 2021.	Management delivered strong results against the 2021 targets (see the Group's Sustainability Report for more detail).
Net zero operations – reducing our environmental impact	
Approval of environment targets and KPIs.	Management delivered strong results against the 2021 targets (see the Group's Sustainability Report for more detail).
Working responsibly with Suppliers	
Review of the Group's Modern Slavery and Human Rights Statement, recommended for approval by the Board.	Approval of the Group's statement by the Board, published in June 2021 (see the Company's website for more detail).
Approval of supplier targets and KPIs.	Management delivered strong results against the 2021 targets (see the Group's Sustainability Report for more detail).
Supporting our Communities	
Held a community deep dive discussion focused on Phoenix's community engagement strategy, including progress during 2021, future goals and connection to our culture.	Enhanced understanding of steps being taken by management in relation to community engagement, including charitable partnerships, initiatives in the community and methods to quantify the impact of these activities; and insights into the cohesion between Phoenix's culture and community engagement (to create the foundations of a 'giving' culture).
Approval of community related targets and KPIs	Management delivered strong results against the 2021 targets (see the Group's Sustainability Report for more detail).

Climate change

In addition to the above, the Committee received regular reports relating to the Group's compliance with cliamte change regulation. This included progress being made on the implementation of TCFD recommendations within the Group; a review of the Group's Climate Biennial Exploratory Scenario submission content in collaboration with the Board Risk Committee; completion of the Chapter Zero 'Board Readiness Check' as part of the Committee's annual effectiveness review; and participation in a discussion on the outcomes of COP 26 and the UK's climate change strategy. The Board Risk Committee has monitored the Group's compliance with the Prudential Regulation Authority's supervisory statement SS3/19, supplementing the Sustainability Committee's oversight of climate change related activities undertaken by the Group. This 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 Board Sustainability 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. I hope you find this report informative.

Karen Green
Chair of the Board Sustainability Committee

Remuneration Committee report

Remuneration committee chair, Kory Sorenson

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 2021.

Summary of the year
Phoenix has made strong progress against its strategic priorities in 2021. We have once again delivered on our financial framework of cash, resilience and growth, while continuing to support our customers and colleagues, and ensuring that sustainability is at the heart of our business.

Both the Standard Life and ReAssure integrations continue to progress to plan, with cumulative synergies realised to date of £1.6 billion from Standard Life (134% of target) and £0.9 billion from ReAssure (89% of target). This includes the integration of ReAssure onto our HR grading architecture and T&Cs, effective 1 January 2022.

The Group delivered £1.7 billion of cash generation in the year, beating our target range of £1.5 billion-to-£1.6 billion for the year. Our Solvency II balance sheet remained resilient with a £5.3 billion SII surplus and a 180% Solvency II shareholder capital coverage ratio.

The Group delivered strong management actions of £1.5 billion from our in-force business in 2021, primarily due to the successful completion of the Group's internal model harmonisation programme. The Group also optimised its portfolio through the disposal of Ark Life, the European closed book Heritage business acquired as part of ReAssure, for an attractive price.

In terms of growth, 2021 has proven to be a pivotal year for Phoenix with new business long-term cash generation of c.£1.2 billion more than offsetting the run-off of policies within our Heritage business (currently c.£800 million). Phoenix is now a growing, sustainable business.

Our BPA business is the near-term driver of our Open business growth. Momentum is also building in our Workplace business, with positive net flows of £0.6 billion and 41 new scheme wins in 2021 providing a platform for future growth.

Alongside this, the continued development of our in-house asset management capability has enabled us to increase our illiquid asset origination by 48% year-on-year to £3.0 billion. Importantly, nearly £1.3 billion of this was long-term investment into ESG-related assets, an increase of nearly 50% in investment in sustainable assets year-on-year.

Within the business as a whole we have been pleased with the progress made in diversity and inclusion in particular. When including contracted new joiners we have achieved our target, under the Women in Finance Charter, of having over of 30% women in Top 100 salaried roles. This includes an additional Executive Committee member, who will be joining us from March 2022, which will mean that 3 out of 13 on the Committee (23%) are now female. This is not the end point, but solid progress towards our diversity ambitions.

Executive remuneration outcomes for 2021
The incentive outcomes for 2021 reflect the strong financial and non-financial performance and progress on key strategic objectives during the year.

During the year, the Committee approved certain adjustments to the AIP targets in respect of the Long-term Cash Generation and Shareholder Value metrics, in line with its agreed principles. The Committee was satisfied that as a result of the adjustments, the targets remained as stretching as originally intended. Details of these are set out on page 112. Based on its assessment of the corporate metrics the Committee determined that the Annual Incentive Plan ('AIP') outcome should be 77% 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 82.5% for Andy Briggs and 81.25% for Rakesh Thakrar. This results in total awards of 78% of the maximum bonus opportunity for both Executive Directors in line with the overall assessment.

The 2019 Long-Term Incentive Plan ('LTIP') award covering the years 2019–2021 was based on Cumulative Cash Generation, Return on Solvency II Shareholder Own Funds and relative TSR. Performance was particularly strong on Return on Solvency II Shareholder Own Funds. The overall vesting outcome is 78% of the maximum opportunity. Further details are set out on page 114.

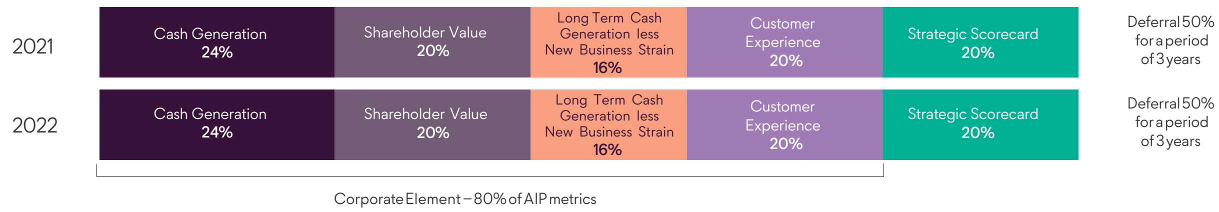
The resulting single total figure of remuneration for Andy Briggs was £1,831k and for Rakesh Thakrar was £1,228k. Full details are set out on page 111.

The Committee is satisfied that the remuneration outcomes for 2021 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.

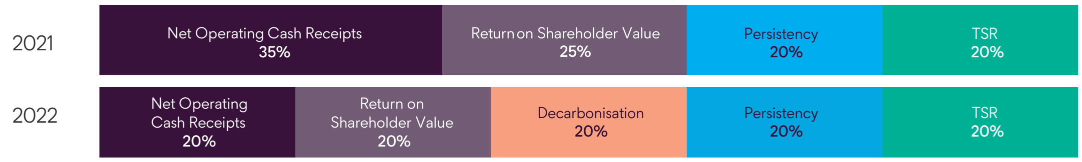
Remuneration changes for 2022
Phoenix continues to evolve and change as a business and in this context the Committee reviews Phoenix's approach to remuneration annually, both for the senior leadership team and for the wider organisation in the context of the policies and practices which apply to the wider workforce.

Inclusion of ESG metrics into the LTIP
Phoenix puts sustainability at the heart of its strategy. In 2021, we committed to achieving net-zero carbon by 2025 across our operations and by 2050 across our investment portfolio.

Annual incentive plan



Long term incentive plan



From 2022, the Committee is therefore introducing an ESG element with 20% weighting to the long-term plan, linked to quantitative achievements against our external commitments for the decarbonisation of both our operations and our investment portfolio. Targets for the 2022 LTIP will focus on progress towards our interim targets to:

- Achieve a reduction of 25% in the carbon emission intensity of our investments by 2025, to cover all listed equity and credit assets where we can exercise control and influence (c. £160 billion), and
- Achieve Net Zero carbon emissions in the Group's operations by 2025 – the scope for this target is scope 1 and 2 emissions from our occupied premises and scope 3 emissions from business travel.

The 2022 LTIP outcomes will be set by reference to delivery as at the end of 2024.

We will review the nature of the measure each year to ensure we achieve the best alignment with our ESG ambitions as they evolve.

Our broad ESG targets currently form a significant part of the strategic scorecard element of the Executive Director and Executive Committee AIP, representing 10% of the overall AIP for the CEO. Going forward, to avoid double counting, the weighting of ESG metrics in the AIP will stay the same, but will be focused on social and governance measures, or environmental measures not including decarbonisation.

The Committee believes that our other current performance measures are well aligned with the Group's long-term strategy, and as such, no other changes are being proposed to the AIP or LTIP. A summary of the metrics is set out below.

Base salary adjustments

The Committee reviewed the remuneration arrangements for Rakesh Thakrar following his appointment as Group Chief Financial Officer ('CFO') in May 2020. Rakesh has had an excellent start in his role as Group Chief Financial officer ('CFO') and despite taking on the role in challenging circumstances as the COVID-19 pandemic took hold, the business has continued to demonstrate its resilience under his leadership with Andy, delivering strong performance as detailed above. Rakesh has embraced the role and clearly demonstrated his exceptional competencies in finance, execution, strategy and leadership.

In accordance with the remuneration policy, base salaries are reviewed each year against companies of similar size and complexity and taking into account corporate and individual performance. On this basis, and due to exceptional performance, the Committee decided to award Rakesh a salary increase from £430,000 to £485,000 which positions him in line with roles at companies of a comparable size in the FTSE 100.

Whilst salary increases are not normally awarded above the level of the workforce, the Board was unanimous in its decision that this increase was in the best interests of the shareholders in order to appropriately position the salary against market norms and continue to retain and motivate a highly regarded CFO with unparalleled knowledge of the Phoenix business. The increase awarded to Rakesh is within the range of salary increases awarded during the year to high-performing individuals below the Board where there was also a market rationale to do so. It is also important to note that Rakesh's salary upon appointment during 2020 was positioned conservatively given the significant uncertainty of the COVID-19 crisis and the difference of experience with his predecessor as well as his market peers. Over the period, Phoenix has also grown into a solid mid-FTSE 100 company.

The Committee decided to provide the Group CEO, who continues to demonstrate exceptional performance, with an increase of 1.5% in line with that provided to other senior managers in the wider workforce. The average increase for all employees for 2022 was 3.6%. No other adjustments have been proposed.

Looking forward

The Board and Committee believe that our remuneration policy transparently provides strong alignment between pay and performance and appropriately reflects the experience of our stakeholders. This said, it continues to be refined to adapt to evolutions in our environment and our businesses, as well as the input from our shareholders.

We hope that the 2021 pay decisions and proposed implementation for 2022 outlined above and 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 resolution proposed at the 2022 AGM.

Kory Sorenson
Remuneration Committee Chair

Directors' remuneration report

At a glance 2022

Alignment to strategy

This table demonstrates how each of our performance measures for AIP and LTIP align with the Group's strategic priorities.

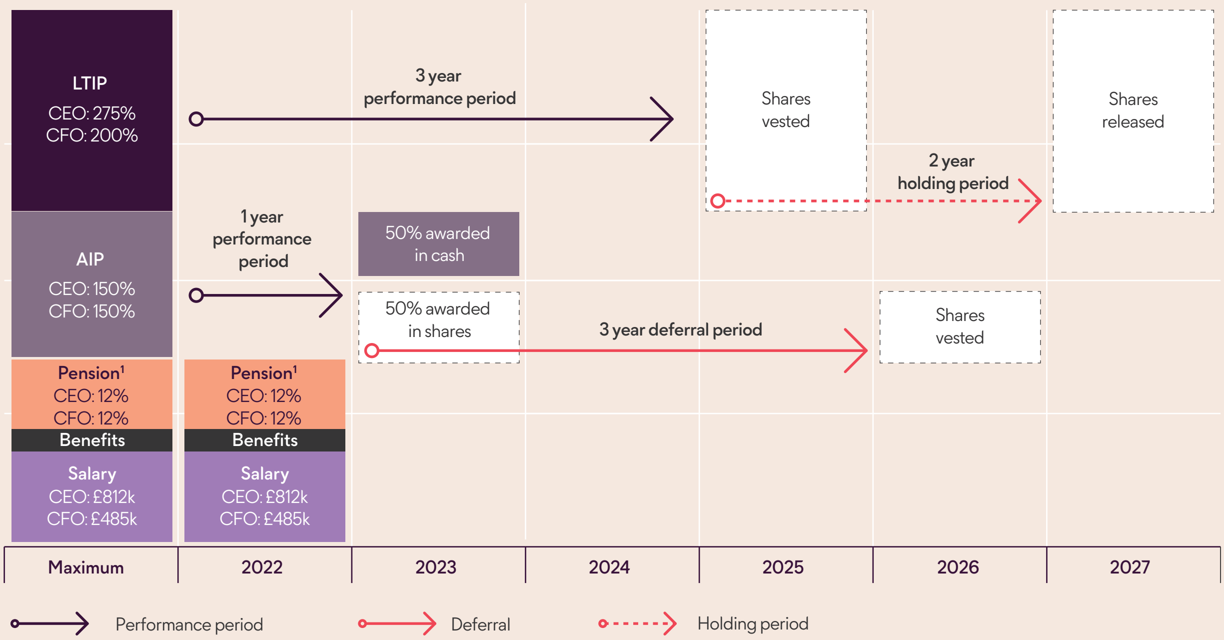
	2022 Corporate Metrics	Optimise our in-force business	Enhance our operating model and culture	Grow our business to support both new and existing customers	Innovate to provide people with better financial futures	Invest in a sustainable future
		Phoenix's Strategic Priorities for 2022				
AIP	Cash Generation	✓	–	–	–	–
	Incremental Long-Term Cash Generation less New Business Strain	–	–	✓	–	–
	Shareholder Value	✓	✓	✓	✓	✓
	Customer Experience	–	✓	✓	✓	–
	Strategic Scorecard	✓	✓	✓	✓	✓
LTIP	Net Operating Cash Receipts	✓	–	–	–	–
	Return on Shareholder Value	✓	✓	✓	✓	✓
	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. This AIP for 2022 aligns to Phoenix's Strategic KPIs as shown above.

Alignment to shareholders

Our Executive remuneration is designed to align with shareholder interests to deliver long-term sustainable value. The diagram below shows how a significant portion of Executive remuneration under the remuneration policy is delivered in shares and deferred for up to five years. Under the maximum scenario, 65% of the Group CEO's maximum remuneration is delivered in shares.

65% of total maximum remuneration for Group CEO is paid in shares

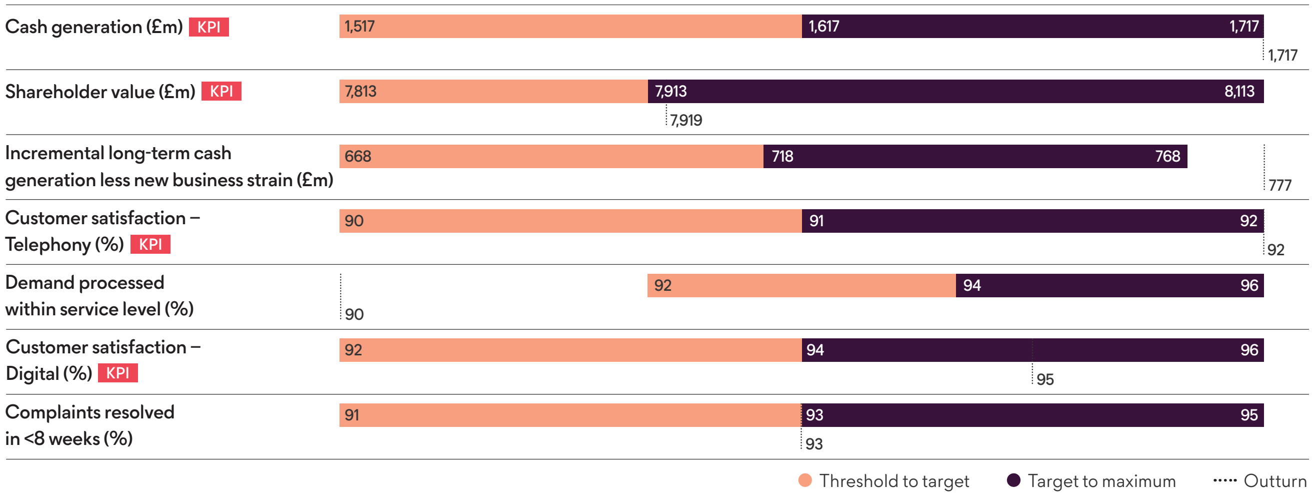


1 Full pension contribution of 12% is reduced for the effect of employers' National Insurance Contributions if taken as a cash supplement in lieu of contributions.

At a glance 2021

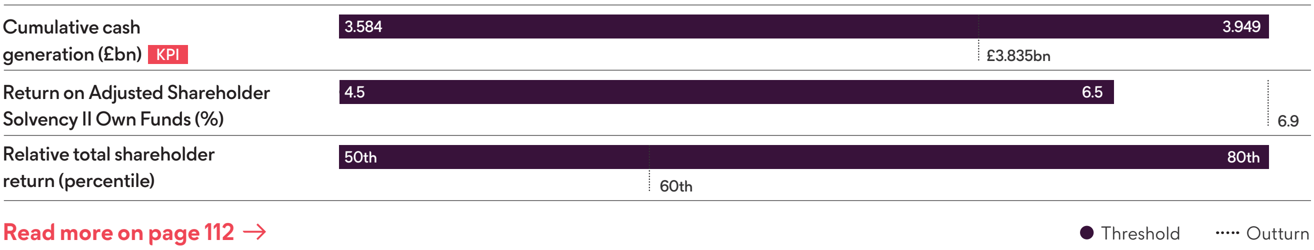
Group performance measures
Annual Incentive Plan ('AIP'):

Below we show the target ranges and outturn against the metrics within the 2021 AIP. More details of the 2021 AIP can be found on pages 112 to 114. AIP metrics that are stated Group KPIs are flagged below and evidences the direct link between Group strategy and remuneration outcomes. Those metrics that are not stated KPIs were felt by the Committee to be appropriate metrics which are reflective of the shareholder experience. Further information on how the Committee determined the AIP outcomes in the context of the wider stakeholder experience this year is set out on pages 113 to 114.



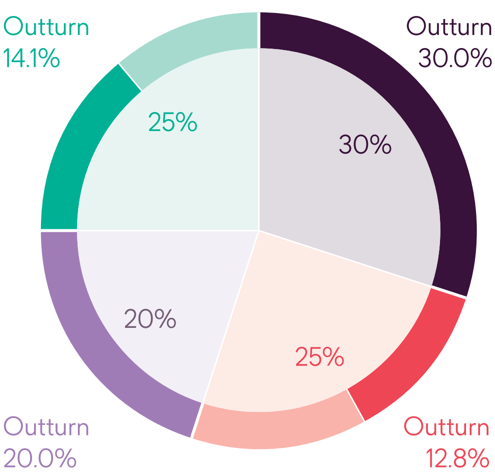
Group performance measures
Long-Term Incentive Plan ('LTIP'):

Below we show outturn against the measures which applied for the 2019 LTIP awards which are reflected in the Single Figure Table on page 111. Cumulative Cash Generation, Return on Adjusted Shareholder Solvency II Own Funds and Relative Total Shareholder Return ('TSR') performance are shown over the three-year performance period (financial years 2019, 2020 and 2021). TSR is measured against the constituents of the FTSE 250 (excluding Investment Trusts), with median being the 50th percentile and upper quintile being the 80th percentile.



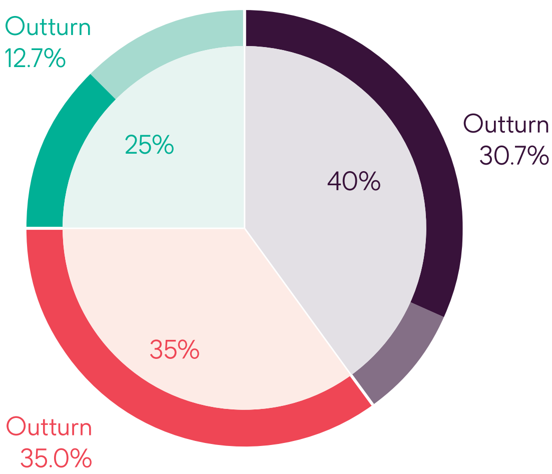
Read more on page 112 →

AIP weighted performance outturn



- Cash generation
- Shareholder value
- Incremental long-term cash less new business
- Customer experience

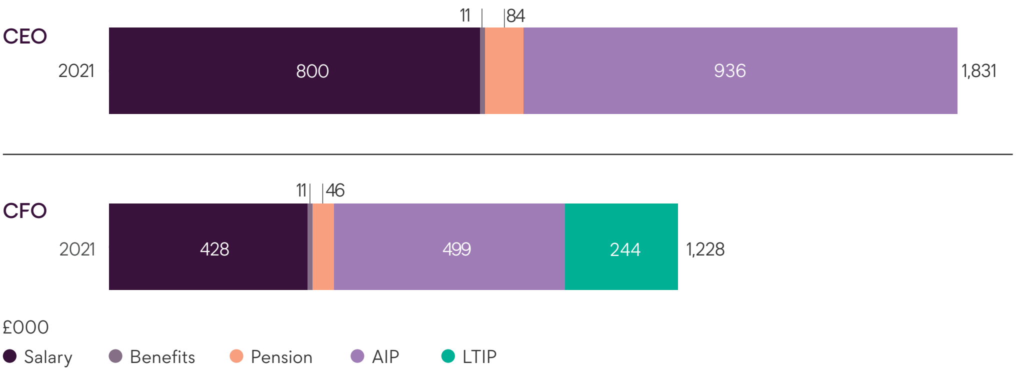
LTIP weighted performance outturn



- Cumulative cash generation
- Return on adjusted shareholder solvency II own funds
- Relative total shareholder return (percentile)

2021 Single Figure

The outcomes under the AIP and LTIP resulted in a single figure outcome for Andy Briggs of £1,831k and for Rakesh Thakrar of £1,228k. Further details are on page 111.



Shareholding guidelines ('SOGS')

A significant proportion of executive remuneration is delivered in shares which are released over a period of five years. In combination with our shareholding guidelines, this aligns Executive Directors with shareholders over the long term. As at 31 December 2021, 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 attached as Appendix to this report on page 133.

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 £6.532 (as at close of business on 31 December 2021). 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.

Section A

This section contains the annual report on remuneration which forms part of the Directors' remuneration report to be proposed for approval by the Company's shareholders at the Company's 2022 AGM on 5 May 2022.

Introduction

This report contains the material required to be set out as the Directors' remuneration report ('Remuneration Report') for the purposes of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended) ('the DRR regulations').

Directors' remuneration policy

The Remuneration Policy approved by the shareholders at the 2020 AGM is attached in full as Appendix to this remuneration report.

Implementation report – Audited information single figure table

£000	Salary/fees[3]		Benefits[4]		Pension[5]		Total Fixed Pay		Annual Incentive[6]		Long-term incentives		Total Variable Pay		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**[7]	2020[8] (restated)	**2021**	2020	**2021**	2020[8] (restated)
Executive Directors																
Andy Briggs[1]	**800**	717[1]	**11**	26[1]	**84**	76[1]	**895**	819[1]	**936**	887[1]	**–**	–[9]	**936**	887[1]	**1,831**	1,706[1]
Rakesh Thakrar[2]	**428**	263[2]	**11**	7[2]	**46**	28[2]	**485**	298[2]	**499**	323[2]	**244**	308	**743**	631[2]	**1,228**	929[2]

1 Andy Briggs joined the Board of Phoenix Group Holdings plc on 10 February 2020 as Group CEO Designate and became CEO on 10 March 2020. Figures for 2020 reflect the period from his Board appointment to 31 December 2020.
2 Rakesh Thakrar joined the Board of Phoenix Group Holdings plc on 15 May 2020. Figures for 2020 reflect the period from his Board appointment to 31 December 2020.
3 The Executive Directors are entitled to adjust their salary/benefit combination under flexible benefits arrangements and the figures shown are before individual elections.
4 Benefits for Executive Directors include car allowance and private medical insurance and other taxable allowances. The 2020 benefits figure for Andy Briggs also included legal fees relating to his appointment.
5 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 (10.8%). No Director participated in a defined benefit pension arrangement in the year and none have any prospective entitlement to a defined benefit pension arrangement.
6 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (i.e. 50% of the AIP award for 2021). In 2021 £468,120 of Andy Briggs's incentive payment is subject to three-year deferral delivered in shares (2020: deferral of £443,653), and £249,350 of Rakesh Thakrar's incentive payment is subject to a similar deferral (2020: deferral of £161,713).
7 In accordance with the requirements of the DRR regulations, the 2021 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2019 and which are due to vest on 11 March 2022 for Rakesh Thakrar. This vesting level is at 78.4% reflecting outcomes against the Cumulative cash generation, return on adjusted shareholder Solvency II own funds, and Relative TSR performance measures to 31 December 2021 (see page 114). This vesting outcome is then applied to the average share price between 1 October 2021 and 31 December 2021 (652.406p) to produce the estimated long-term incentives figures shown for 2021 in the above table. The assumptions will be trued up for actual share price at the day of vesting in the report for 2022. For Rakesh Thakrar, the disclosed LTIP figure of £244k comprises the disclosed LTIP figure of £200,804 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 £43,619. All values are calculated using the three month average share price to 31 December 2021 (652.406p). There was no increase in the value of Rakesh's vested 2019 LTIPs due to share price movement with the award based on a share price of 700.4p.
8 For 2018's LTIP awards which are reflected in the 2020 long-term incentives column above, the performance conditions were met as to 99.9% of maximum. The 2020 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 21 March 2021 (716.4p per share) multiplied by the number of shares vesting whereas the equivalent figure within the published 2020 Single Figure Table was an estimate which reflected the average share price between 1 October 2020 and 31 December 2020 (718.08 p per share) and certain assumptions regarding the cumulative value of dividends on the number of shares vesting.
9 The disclosed LTIP figure of £nil relates to the 2018 Aviva LTIP buy-out award granted to Andy Briggs which lapsed as the Aviva award had a performance outturn of 0% over the performance period.

AIP outcomes for 2021 – Audited information

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level of 2021 AIP	Target performance level for 2021 AIP	Maximum performance level for 2021 AIP	**Performance level attained for 2021 AIP**	% of incentive potential based on Performance Measure	**% achieved**
Cash Generation	£1,517m	£1,617m	£1,717m	**£1,717m**	30.00%	**30.00%**
Incremental Long-Term Cash Generation less New Business Strain	£668m	£718m	£768m	**£777m**	20.00%	**20.00%**
Shareholder Value	£7,813m	£7,913m	£8,113m	**£7,919m**	25.00%	**12.80%**
Customer Experience						
Customer Satisfaction – Telephony[1]	90.0%	91.0%	92.0%	**92.0%**	6.25%	**6.25%**
Demand Processed within Service Level[2]	92.0%	94.0%	96.0%	**90.0%**	6.25%	**0.00%**
Customer Satisfaction – Digital[3]	92.0%	94.0%	96.0%	**95.0%**	6.25%	**4.68%**
Complaints Resolved in < 8 Weeks[4]	91.0%	93.0%	95.0%	**93.0%**	6.25%	**3.12%**
Total					100.00%	**76.85%**

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 and straight through processing.

3 Digital customer satisfaction surveys are offered to customers on Standard 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.

In respect of the Long-term Cash Generation metric, the Committee approved an adjustment to increase the related target by £117 million to reflect the uplift in actual capital investment during the year in the BPA business compared to that assumed in the setting of the original targets. The Committee believed the adjustment was important to ensure that management were incentivised to ensure the additional capital investment delivers value-accretive returns for shareholders. This had no impact on the outcome of the measure.

During the year the Remuneration Committee were advised of an error during the target setting process for the Shareholder Value metric. The Committee approved the correction on the basis that it applied to the baseline figure from which both the target and the outturn are calculated and therefore had no impact on the level of stretch within the target. The Committee also approved an adjustment to reflect the amendment of the categorisation of two with-profit funds as no longer falling under the Shareholder Value definition, in line with the internal model harmonisation exercise. This had no impact on the level of stretch within the target.

In reviewing all of the adjustments, the Committee was satisfied that as a result the targets remained as stretching and motivating to management as originally intended.

As described in the Committee Chairman's covering letter (page 106), Phoenix has made strong progress against its strategic priorities in 2021 and has once again delivered on its financial framework of cash, resilience and growth. Prior to confirming the outcomes for the 2021 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 2021 formulaic outcome was necessary.

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
ESG – Committing to a sustainable future	25%	20%	Reduce environmental impact	0.96 tonnes CO_2e/FTE	0.81 tonnes CO_2e/FTE	100% Significant over-delivery compared to plan. Established capability and embedding in the organisation. Increasing voice in the industry. Demonstrably putting our money to work in sustainable assets.
			Foster responsible investment	Set carbon reduction pathways	Completed	
				>=60% ratio of shareholder investments in sustainable assets within the illiquid portfolio	67%	
			Delivering for our customers	Launch >=3 initiatives to improve financial understanding	3 pilots launched	
				Review workplace default solutions	Review complete and customer mailings underway	
				Launch digital literacy initiative	Launched digital literacy pilot	
			Supporting our communities	>=40% of colleagues engaged	35% despite COVID-19 restrictions curtailing activities	
			Work responsibly with our suppliers	>=75% engaged with Phoenix on their carbon management programme and commitments	84%	
			Brand awareness	Launch of Phoenix Institute and Qualitative assessment	Launched and receiving strong support	
Engagement, diversity and inclusion	25%	20%	Engagement survey results	eNPS 18 or Average 7.5/10	eNPS 23 Average 7.5/10	75% Excellent progress made in 2021 against our gender metrics. We have seen strong improvement in female representation and continue with a positive outlook in 2022. Our engagement result reflects how we have continued to support colleagues through an uncertain year as a result of the continued COVID-19 pandemic and our move to hybrid working.
			'Who we are' data tracking	>= 85%	73%	
			Women in Finance gender pay gap	<= 22% by 2021 (positive trend 2020)	22.9% (not adjusted for contracted hires)	
			Percentage of females in top 100	>= 30% by 2021 (positive trend by 2020)	31% (including contracted hires and known leavers, 27% actual)	
			Percentage of females named as Green or Amber Successors	>= 40% (maintain)	42% (not including contracted hires)	
Risk management	15%	20%	Open action plans	<=10% overdue	13%	50% Consistent focus on risk management with good progress. Significant investment but a recognition of the need to continue to build robust automated controls that support the ambitions of the business.
			Customer incidents management	80% Cat.A resolved in 2 mths 72.5% Cat.B resolved in 9 months	87% 78%	
			Review of RMF effectiveness	Qualitative ORMF report	Satisfactory	
			Regulator action tracking	Qualitative assessment based on quality and timeliness	Satisfactory	
Financial resilience	10%	20%	Long-term free cash	>=£13.5bn	13.2bn	100% Met or beat consensus on a number of our key metrics, with a stronger balance sheet due to management actions and initiatives delivered in the period. Fitch leverage ratio adversely impacted by hedging strategy. Supported Swiss Re sell down of half of its strategic stake in June, with strong ongoing relationship with other strategic investors.
			Shareholder ratio	>=165%	180%	
			Maintain investment grade rating	Maintain at A+	upgraded from A+ to AA-	
			Fitch leverage ratio	>=28%	28%	
			Credit downgrade sensitivity	Maintain at FY20 level	Maintained	
			Share placement strategy	Develop a significant share placement strategy and execute as required	Achieved	
			Strategic investors	Enhance strategic shareholder relationships	Achieved	
Sustainable Operating Model & Business Integration	10%	10%	Cost synergies in year (SLAL) net of tax	>=£4.6m	£8.1m	62.5% Strong delivery of capital and cost synergies for the SLAL and ReAssure acquisitions. BAU expense increase reflects investment in the business for future growth. Change agenda reflects the growth ambitions, with ongoing management of interdependencies and scheduling of delivery.
			Cost synergies in year (ReAssure) net of tax	>=£16m	£5.6m	
			Capital synergies in year (SLAL)	>=£227m	£557m	
			Capital synergies in year (ReAssure)	>=£40m	£209m	
			Total BAU expenses (excluding SunLife)	<=£750m	£808m including Board approved activities	
			% of key projects reporting green	>=80%	51%	
			Platform availability	>=99.5%	99.9%	
Strategy	15%	10%	2024–26 strategic plans	Mobilise 2024–26 strategic plans	Achieved	100% Strategy agreed with the Board and embedded in the Annual Operating Plan.
			Strategic projects	Quality execution of 3 strategic projects	Achieved	

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	82.50%
Rakesh Thakrar	81.25%

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	76.9	92.3	82.5	24.8	117.0	150.0	78.0
Rakesh Thakrar	76.9	92.3	81.3	24.4	116.7	150.0	77.8

As described in the Remuneration Policy, 50% of 2021 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 2022 AIP have been disclosed (see Implementation of Remuneration Policy for 2022 on page 121), 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 2022's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2021's AIP.

LTIP outcomes for 2019 awards – Audited information

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Cumulative cash generation (40%)	Target range between Cumulative cash generation of £3.584 billion and Cumulative cash generation of £3.949 billion.	£3.835bn	76.7%	30.7%
Return on Solvency II Shareholder Own Funds (35%)	Target range between 4.5% CAGR and 6.5% CAGR.	6.9	100.0%	35.0%
Relative TSR (25%)	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	60.4th	50.8%	12.7%
Total				78.4%

The above targets were all measured over the period of three financial years 1 January 2019 to 31 December 2021.

Following the acquisition of ReAssure Group plc by the Group on 22 July 2020, the LTIP targets for Cumulative cash generation were amended to reflect the new organisation. The adjustments were made in line with the Committee's established principles for target setting in the event of an acquisition and the Committee was satisfied that the revised targets were equally stretching as those originally set. The previous targets for the Cumulative Cash Generation metric were £2.097 billion at threshold (where 25% of this part of the award vests) and £2.397 billion at maximum (full vesting of this part of the award).

In addition to the above targets, the Committee confirmed that the underpin performance condition relating to risk management within the Group, customer satisfaction and, in exceptional cases, personal performance had been achieved in the performance period.

Payments for loss of office – Audited information

No payments were made to Directors in 2021 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 2021 in respect of the 2018 LTIP. The value of these shares at the point of vesting on 21 March 2021 was £1,131,985. Taking into account the performance outturn of 99.9% and time pro-rating, this reflected a grant of 130,451 shares with a value of £934,553 plus dividend accrual of 27,559 shares with a value of £197,432. As disclosed in the 2020 Directors' remuneration report, Clive Bannister received an amount of £161,796 in respect of his 2020 AIP award for the portion of the year in which he remained employed by the Group, which was paid in March 2021 and subject to 50% deferral in line with remuneration policy adopted in 2020.

James McConville, who resigned from the Board on 15 May 2020, received title to shares in 2021 in respect of the 2018 LTIP. The value of these shares at the point of vesting on 21 March 2021 was £777,737. Taking into account the performance outturn of 99.9% and time pro-rating, this reflected a grant of 89,628 shares with a value of £642,097, plus dividend accrual of 18,934 shares with a value of £135,640. As disclosed in the 2020 Directors' remuneration report, James McConville received an amount of £202,432 in respect of his 2020 AIP award for the portion of the year in which he remained employed by the Group, which was paid in March 2021 and subject to 50% deferral in line with remuneration policy adopted in 2020.

Non-executive fees – Audited information

The emoluments of the Non-Executive Directors for 2021 based on the current disclosure requirements were as follows:

	Directors' salaries/fees		Benefits[1]		Total	
Name	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Non-Executive Chairman						
Nicholas Lyons[2]	370	325	1	–	371	325
Non-Executive Directors						
Alastair Barbour	161	145	10	6	171	151
Karen Green	141	125	1	–	142	125
Hiroyuki Iioka[3]	–	–	–	–	–	–
Wendy Mayall	111	105	–	–	111	105
Chris Minter[4]	–	–	–	–	–	–
John Pollock	141	135	–	–	141	135
Belinda Richards	111	105	–	–	111	105
Nicholas Shott	129	105	–	1	129	106
Kory Sorenson	141	125	–	–	141	125
Mike Tumilty[5]	–	–	–	–	–	–
Total	1,305	1,170	12	7	1,317	1,177

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 Nicholas Lyons increased to £460k with effect from 1 September 2021.
3 Hiroyuki Iioka is a nominated appointed director of MS&AD and has waived all current and future emoluments with regard to his Directors' fees.
4 Chris Minter resigned from the Board on 25 June 2021. He was a nominated appointed director of Swiss Re and waived all current and future emoluments with regard to his Directors' fees.
5 Mike Tumilty is a nominated appointed director of abrdn plc and has waived all current and future emoluments with regard to his Directors' fees.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £4.376 million (2020: £4.537 million).

Share-based awards – Audited information

As at 31 December 2021, 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 2021	No. of shares granted in 2021	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 2021	Vesting date[4]
Andy Briggs									
LTIP Buyout Award	7 Nov 2019	751.5p	87,221	–	–	–	–	87,221	27 Mar 2020
LTIP Buyout Award	7 Nov 2019	751.5p	101,158	–	–	–	(101,158)	–	26 Mar 2021
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
			542,908	**298,831**	**–**	**–**	**(101,158)**	**740,581**	
Rakesh Thakrar									
LTIP	21 Mar 2018	703.6p	35,527	–	7,502	(42,985)	(44)	–	21 Mar 2021
LTIP	11 Mar 2019	700.4p	39,259	–	–	–	–	39,259	11 Mar 2022
LTIP	13 Mar 2020	620.5p	135,365	–	–	–	–	135,365	13 Mar 2023
LTIP	12 Mar 2021	736.2p	–	116,816	–	–	–	116,816	12 Mar 2024
			210,151	**116,816**	**7,502**	**(42,985)**	**(44)**	**291,440**	

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 2021 were £306,053 (2020: £2,426,388). Rakesh Thakrar's gain was £306,053 arising from an LTIP award exercised on 23 March 2021 at a share price of £7.12. The figure for 2020 included exercises by former Executive Directors.
3 The 2018 LTIP award vested at 99.9% of maximum. The 2019 LTIP award vested at 78.4% 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.

LTIP targets

The performance conditions for the 2019, 2020 and 2021 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	**2019 award** (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% Relative TSR)	**2020 award** (35% Net Operating Cash Receipts, 25% Return on Shareholder Value, 20% Relative TSR, 20% Persistency)	**2021 award** (35% Net Operating Cash Receipts, 25% Return on Shareholder Value, 20% Relative TSR, 20% Persistency)
Cumulative cash generation 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range of £3.584bn to £3.949bn.	n/a	n/a
Net Operating Cash Receipts 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	Target range of £4.411bn to £4.966bn.	Target range of £4.330bn to £4.780bn.
Return on Adjusted Shareholder Solvency II Own Funds 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Between 4.5% CAGR and 6.5% CAGR.	n/a	n/a
Return on Shareholder Value 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	Between 2% CAGR and 4% CAGR.	Between 2% CAGR and 4% CAGR.
Relative TSR 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company, measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range 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.
Persistency 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	n/a	Target range between 8.0% and 6.5%	Target range between 7.4% and 6.1%

Underpin:

2019 and 2020 LTIP – notwithstanding the Return on Adjusted Shareholder Solvency II Own Funds, Cumulative cash generation and TSR 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 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 2021	No. of shares granted in 2021	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 2021	Vesting date
Andy Briggs									
DBSS	12 March 2021	736.2p	_	67,269	–	–	–	67,269	12 Mar 2024
			_	67,269	–	–	–	67,269	
Rakesh Thakrar									
DBSS	21 Mar 2018	703.6p	6,863	–	1,445	(8,308)	–	–	15 Mar 2021
DBSS	11 Mar 2019	700.4p	11,740	–	–	–	–	11,740	11 Mar 2022
DBSS	13 Mar 2020	620.5p	15,262	–	–	–	–	15,262	13 Mar 2023
DBSS	12 March 2021	736.2p	–	27,381	–	–	–	27,381	12 Mar 2024
			33,865	27,381	1,445	(8,308)	–	54,383	

1 In addition to the shares awarded under the DBSS presented above, participants receive an additional number of shares (based on the number of DBSS awards which actually vest) to reflect the dividends paid during the vesting period.
2 Gains of Directors from share options exercised and vesting shares under the DBSS in 2021 were £59,922 (2020: £532,034). Rakesh Thakrar's gain was £59,922 (2020: £54,297) arising from an award exercised on 16 March 2021 at a share price of £7.212553. The figure for 2020 included exercises by former executive directors.

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	12 March 2021	LTIP	Nil Cost Option	275% of salary	£2,199,994	25%	12 March 2024	See page 117
Andy Briggs	12 March 2021	DBSS	Nil Cost Option	50% of AIP	£495,234	–	12 March 2024	None
Rakesh Thakrar	12 March 2021	LTIP	Nil Cost Option	200% of salary	£859,999	25%	12 March 2024	See page 117
Rakesh Thakrar	13 March 2021	DBSS	Nil Cost Option	50% of AIP	£201,579	–	12 March 2024	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 (2021 LTIP and DBSS award share price was 736.2p).

Sharesave – Audited information

	As at 1 Jan 2021	Options granted	Options exercised	Options lapsed	As at 31 Dec 2021	Exercise price	Exercisable from	Date of expiry
Andy Briggs	–	3,056	–	–	3,056	£5.89	1 June 2024	1 Dec 2024
Rakesh Thakrar	1,604	–	–	–	1,604	£5.61	1 June 2022	1 Dec 2022
Rakesh Thakrar	2,546	–	–	–	2,546	£5.89	1 June 2026	1 Dec 2026

There were nil gains of Directors from share options exercised under Sharesave during 2021 (2020: £4,838). Sharesave options are granted with an option price that is a 20% discount to the three-day average share price when invitations are made. This is permitted by HMRC regulations for such options.

Aggregate gains of Directors from share options exercised under all share plans in 2021 were £365,975 (2020: £2,963,260).

During the year ended 31 December 2021, the highest mid-market price of the Company's shares was 732.37p and the lowest mid-market price was 623.40p. At 31 December 2021, the Company's share price was 653.20p.

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 2021 or date of appointment if later	Share interests as at 31 December 2021 or retirement if earlier	Total share plan interests as at 31 December 2021 – Subject to performance measures	Total share plan interests as at 31 December 2021 – Not subject to performance measures	Total share plan interests as at 31 December 2021 – Vested but unexercised scheme interest
Andy Briggs	216,830	285,897	653,360	67,269	87,221
Rakesh Thakrar	75,131	102,822	291,440	54,383	–
Alastair Barbour	9,716	9,716	–	–	–
Karen Green	–	–	–	–	–
Hiroyuki Iioka	–	–	–	–	–
Nicholas Lyons	65,990	65,990	–	–	–
Wendy Mayall	40,000	55,000	–	–	–
Chris Minter	–	–	–	–	–
John Pollock	14,666	14,666	–	–	–
Belinda Richards	–	–	–	–	–
Nicholas Shott	38,995	38,995	–	–	–
Kory Sorenson	26,600	38,300	–	–	–
Michael Tumilty	–	–	–	–	–

The Directors' share interests of the following Directors have increased between 31 December 2021 and 21 February 2022 (being one month prior to the date of the notice of the AGM). Kory Sorenson purchased 6,700 shares post year end and Andy Briggs and Rakesh Thakrar each acquired an additional 60 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 2021 (using the share price of 653.20 pence as at 31 December 2021) 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 has also purchased 68,691 shares privately throughout 2021.

Position	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2021 (% of salary)
Andy Briggs	300%	300%
Rakesh Thakrar	250%	200%

The post cessation shareholding requirement is monitored and enforced by direct liaison and confirmation with the Directors and their brokers, all trades and transfers are discussed and notified to the Group by the relevant Director.

The Executive Directors are required to sign a declaration that they have not and will not at any time during their employment with Phoenix, enter into any hedging contract in respect of their participation in the AIP, LTIP, Sharesave, SIP or any other incentive plan of the Company, or pledge awards in such plans as collateral, and additionally that they will neither enter into a hedging contract in respect of, nor pledge as collateral, any shares which are required to be held for the purposes of the Company's Shareholding requirements or any vested LTIP award shares subject to a LTIP holding period.

Implementation of remuneration policy in 2022 – Non-auditable

A summary of the packages of the Executive Directors is set out in the table below.

	Andy Briggs	Rakesh Thakrar
Salary	£812,000, a 1.5% increase aligned to senior managers in the wider workforce.	£485,000, a 12.8% salary increase as detailed on page 107.
Benefits	Benefits in line with the rest of the workforce including car allowance of £10,000 and Private Medical Insurance cover for self only. Executive Directors are also entitled to receive benefits in accordance with our Directors' Remuneration Policy which will be reported in the Single Figure Table each year.	
Pension	Contribution rate of 12% of base salary (reduced for the impact of employers' NIC if taken as a cash payment), aligned to our wider workforce.	
Annual bonus	150% of base salary at maximum. Details of the 2022 AIP are set out below.	
LTIP	275% of base salary.	200% of base salary.
	Details of the 2022 LTIP awards are set out overleaf.	
Shareholding requirement	300% of base salary.	250% of base salary.
	Where any performance vested LTIP awards are subject to a holding period requirement, the relevant LTIP award shares (discounted for anticipated tax liabilities) will count towards the shareholding requirements. Unvested awards under the DBSS which are not subject to performance conditions are included in this assessment on a net of tax basis. Unvested awards under the LTIP are not included in this assessment.	
Post cessation shareholding requirement	Executive Directors are expected to retain the lower of their shareholding on termination or their full in-employment shareholding requirement for two years.	

Element of Remuneration Policy

Annual Incentive Plan ('AIP')

As described in the Committee Chairman's covering letter on page 106, the Committee regularly reviews the performance measures of the incentive plans to ensure they remain aligned with our strategy. The Committee believes the current performance metrics remain well aligned with the Group's strategy and as such no changes are proposed for the 2022 metrics.

The Strategic Scorecard will reflect 20% of the Executive Directors' AIP. This will include a number of the strategic priorities for the year (but avoiding duplication with any outcomes under the Corporate element) and which can be clearly articulated and measured. Sustainability is 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 2022 are:
- Corporate (financial and customer) performance measures – 80%; no change from 2021.
- Strategic Scorecard (strategic company priorities) – 20%; no change from 2021.

The weightings of the AIP performance measures for 2022 are summarised below:

Performance measure Corporate measure	% of incentive potential
Cash Generation	24% (30% of Corporate component)
Shareholder Value	20% (25% of Corporate component)
Incremental Long Term-Cash Generation less New Business Strain	16% (20% of Corporate component)
Customer Experience	20% (25% of Corporate component)
Strategic Scorecard	20%
Total	**100%**

Outcomes from performance measures for 2022'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 2022 AIP outcomes are confirmed. The targets for the specific performance measures for the AIP in 2022 are regarded as commercially sensitive by the Group but will be disclosed retrospectively in the Remuneration Report for 2022.

50% of AIP outcomes for 2022 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 2022 (in respect of 2021's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Group's 2021 annual results in accordance with the Remuneration Policy.

The number of shares for DBSS awards will be calculated using the average share price for the three dealing days before the grant of the DBSS awards. The three-year deferral period will run to the three-year anniversary of the making of the DBSS awards. Dividend entitlements for the shares subject to DBSS awards will accrue over the three-year deferral period.

Long-Term Incentive Plan ('LTIP')

Awards under the LTIP will be made automatically on the fourth dealing day following the announcement of the Group's 2021 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 measures for the 2022 LTIP have been amended to incorporate metrics relating to the Group's progress in delivering its external commitments to decarbonise its operations and investment portfolio as described on page 106 of the Committee Chairman's covering letter. The performance measures are measured over a period of three financial years, commencing with financial year 2022. Details of the 2022 LTIP measures, weightings and targets are shown below:

Performance measure and weighting	Threshold target	Full vesting target
Net Operating Cash Receipts (20%)	£3,800 million	£4,100 million
Return on Shareholder Value (return above risk free on Shareholder value (pre shareholder dividends) over a three-year period) (20%)	3% CAGR in excess of the risk-free rate	5% CAGR in excess of the risk-free rate
Persistency (20%)	7.6%	6.2%
Decarbonisation – Investment Portfolio (10%) Net Zero strategy applied to 75–85% of assets in scope by 2025.	75% of listed equity and credit assets in scope	85% of listed equity and credit assets in scope
18–22% reduction in portfolios where a Net Zero strategy has been applied	18% reduction for those in scope	22% reduction for those in scope
Decarbonisation – Operations (10%) Scope 1 and 2 emissions from our occupied premises and scope 3 emissions from business travel	15% reduction year on year, against 2019 carbon intensity	25% reduction year on year, against 2019 carbon intensity
Relative TSR measure against the constituents of the FTSE 350 (excluding Investment Trusts), subject to an underpin regarding underlying financial performance (20%)	Median	Upper quartile

All 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 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.

Chairman and Non-Executive Directors' fees

The fee levels as at 1 January 2022 are: £460,000 for the Chairman, £75,000 for the role of Non-Executive Director with additional fees of: (i) £20,000 payable for the role of SID; and/or (ii) £30,000 payable where an individual also chairs the Audit, Remuneration, Risk or Sustainability Committee; and £18,000 for the other members of those committees, the Model Governance Committee and attendees to the Life Company Investment Committee.

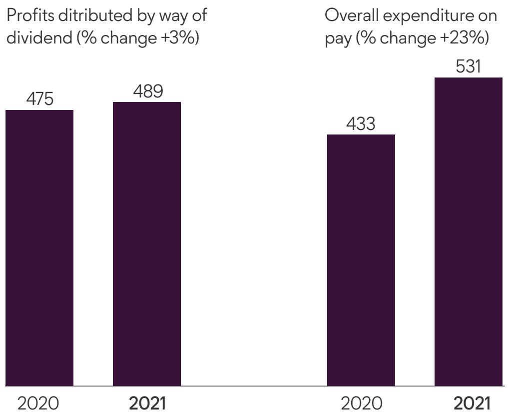
All incentive plans are subject to malus/clawback. See page 134 'Notes to the Remuneration Policy Table' for details.

Directors' remuneration report continued

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 2021 this is the interim dividend paid (£241 million) and the recommended final dividend of 24.8 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 23% in the period reflecting the inclusion of a full year's expenditure in relation to the ReAssure businesses (2020: five months' expenditure). The increase, excluding the impact of the ReAssure businesses, is 5% which is primarily driven by the increased headcount across the Open and Customer segments of the business and the impact of the salary increase for staff during the year, partly offset by cost of the crystallisation of the SunLife four-year long-term equity plan included in 2020.

Voting outcomes on remuneration matters

The table below shows the votes cast to approve the Directors' remuneration report for the year ended 31 December 2020 and the Directors' Remuneration Policy at the 2021 AGM held on 14 May 2021.

	For		Against		Abstentions
	Number	% of votes cast	Number	% of votes cast	Number
To approve the Directors' remuneration report for the year ended 31 December 2020 (2021 AGM)	855,447,252	99.76	2,070,112	0.24	246,422
To approve the Directors' remuneration policy (2020 AGM)	563,455,466	99.31	3,899,742	0.69	744,467

Dilution

The Company monitors the number of shares issued under the Group's employee share plans and their impact on dilution limits. The Company's practice is for all the executive share plans to use market purchase shares on exercise of any awards. For the Company's all-employee Sharesave scheme only, new shares are issued. Therefore the usage of shares compared to the 10% dilution limits (in any rolling ten-year period) set by the Investment Association in respect of all share plans as at 31 December 2021 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 the approach to pay for our Executive Directors, the Committee considers pay and incentive plan design throughout the Group to ensure that arrangements remain appropriate and suitably aligned. The Group has 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 other eligible colleagues, however, a higher proportion of total remuneration for the Executive Directors is linked to corporate performance. The Group also offers all colleagues a choice of share schemes (Sharesave and Share Incentive Plan) on the same basis as those offered to Executive Directors.

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. During 2021, colleagues who joined from ReAssure were aligned to the Group remuneration principles and common incentive plan. The Group's HR vision is to make Phoenix the best place any colleagues have ever worked and provide colleagues with endless possibilities, support and positive experiences. Amongst others, initiatives in 2021 included enhancements to the Group's financial wellbeing offering, continued support during the pandemic and practices that foster a truly equal and inclusive environment. The Committee also considers feedback on pay matters from other sources, such as through Colleague Insights, a continuous listening survey, where colleagues anonymously share their views on various people matters including pay and reward, and through the Phoenix Colleague Representation Forum (PCRF), a colleague led forum made up of representatives from different functions. The designated Non-Executive Director for workforce engagement[1] regularly meets with the PCRF and provides feedback to the Board on key people themes, including diversity and inclusion, support in response to COVID-19, pay and benefits and terms and conditions. Phoenix Group is a proud Real Living Wage employer and champions an inclusive and diverse culture. Equal pay and consistency of treatment for all colleagues, irrespective of gender[2] 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 cultural values, ESG and diversity strategy.

1 Full details of the designated Non-Executive Director's activities during the year are given on page 88 under the Corporate Governance Report.
2 Further details on the Women in Finance Charter figures can be found on pages 43 and 63 of the Sustainability Report. Further details on the statutory Gender Pay Gap figures can be found on the Phoenix Group website.

CEO pay ratio

In accordance with the DRR regulations we have provided in the table below the ratio of the CEO single figure total of remuneration for 2021 (as detailed on page 111) as a ratio of the equivalent single figure for the lower quartile, median and upper quartile employee (calculated on a full-time equivalent basis).

Phoenix Group has calculated the CEO pay ratio using Option A which is the most statistically robust of the methodologies permitted by the regulation. Under this option, the full-time equivalent pay and benefits of all Group employees as at 31 December 2021 has been calculated using the same methodology as for the Group CEO and includes:
- The full-time equivalent annualised salary data.
- The full-time equivalent value of taxable benefits and pension contributions.
- Amounts due from incentive plans.

The Group reviewed the pay of the three identified employees at 25th percentile, 50th percentile (median) and 75th percentile and concluded that they were a fair representation of pay at the relevant quartiles of the UK employee base. Each individual was a direct employee on a permanent or fixed-term contract during 2021 and received remuneration in line with Group wide remuneration policies. None received exceptional pay.

The table below sets out the salary and total single figure remuneration for the Group CEO and percentile employees included in the above ratios.

	Year	Methodology	CEO	25th percentile	50th percentile (median)	75th percentile
Salary	2021	Option A	800,000	22,500	32,189	50,681
Total remuneration (single figure)	2021	Option A	1,831,483	27,577	39,878	69,901
2021 Ratio				66:1	46:1	26:1
2020 Ratio				78:1	54:1	31:1
2019 Ratio				94:1	62:1	40:1

This ratio has reduced in part due to the year-on-year increase in the quartiles for employee salary and total remuneration but more significantly due to the fact that Andy Briggs had no LTIP vesting in 2021 due to the timing of his appointment. We expect this ratio to increase next year as his 2020 LTIP vests. The 2020 ratio was based on the combined figures for Andy Briggs and Clive Bannister, the outgoing CEO.

The philosophy for pay and progression at the Phoenix Group is the same for our Executives as it is for our wider workforce. We are committed to attracting best in class talent at all levels with a compelling and competitive total reward proposition supported by a refreshed corporate brand. This includes a holistic core and flexible benefits approach as well as a compelling suite of people policies which ensure our compensation elements can be competitive but without over paying given the varied nature of the full proposition. We also encourage and provide opportunities for growth and development to all colleagues to enable everyone to thrive throughout their career at Phoenix.

The pay ratio reflects how different remuneration arrangements progress as the accountability and complexity increase with the seniority of the jobs. In particular, the ratio reflects the weighting towards long-term cash, resilience and growth generation for our Group CEO, that ultimately contribute to positive financial outcomes for our shareholders.

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.

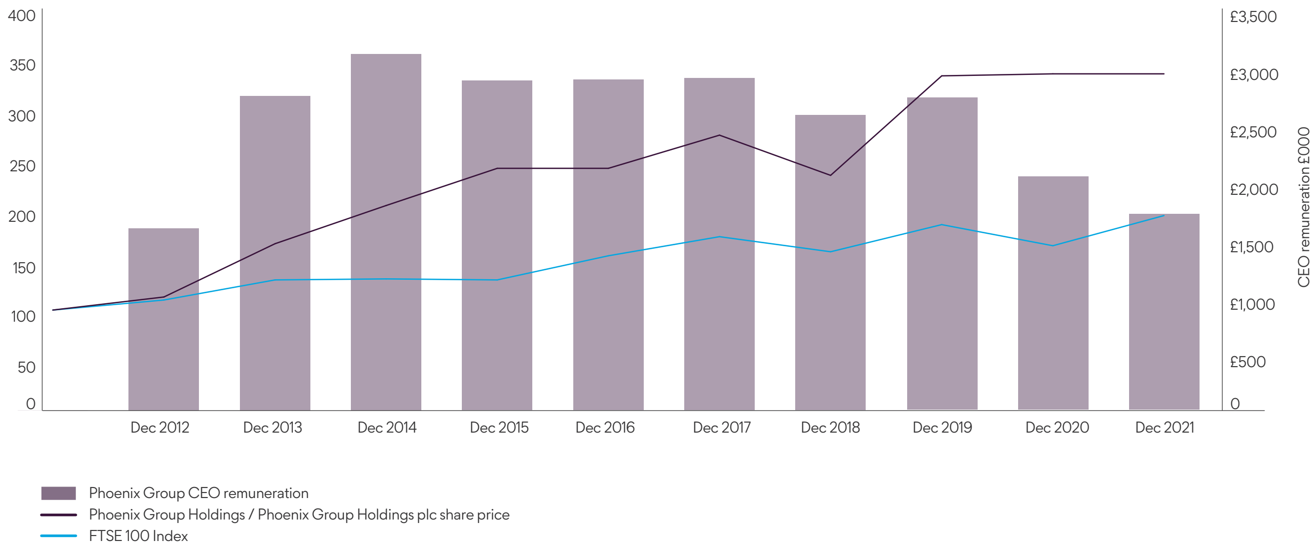
Performance graph and table

The graph below shows the value to 31 December 2021 on a TSR basis, of £100 invested in Phoenix Group Holdings plc on 31 December 2011 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 2011.



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 CEO in 2021. 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. The table below details the individual single figures of remuneration for Clive Bannister and Andy Briggs in 2020.

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')
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]
2012	Clive Bannister	1,583	69%	n/a[8]

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 115 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.
8 Long-term incentive vesting rates against maximum opportunity values are not applicable for 2012 due to no awards vesting in those financial years.

Percentage change in pay of the Group Chief Executive Officer 2020 to 2021

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 2020 and 2021 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.

Year-on-year	Salary		Taxable Benefits		Annual incentive	
% change	**2021**	2020	**2021**	2020	**2021**	2020
Executive Directors[1]						
Andy Briggs[2]	**0.0%**	–	**3.3%**	–	**(5.5)%**	–
Rakesh Thakrar	**2.3%**	–	**3.3%**	–	**(3.3)%**	–
Non-Executive Directors[3]						
Alastair Barbour	**11.0%**	0.0%	**66.6%**	(60)%	**0.0%**	–
Karen Green	**12.8%**	6.8%	**n/a**[4]	(100)%	**0.0%**	–
Hiroyuki Iioka	**0.0%**	–	**0.0%**	–	**0.0%**	–
Nicholas Lyons	**13.8%**	0.0%	**n/a**[4]	(100)%	**0.0%**	–
Wendy Mayall	**5.7%**	0.0%	**0.0%**	(100)%	**0.0%**	–
Chris Minter	**0.0%**	–	**0.0%**	–	**0.0%**	–
John Pollock	**4.4%**	0.7%	**0.0%**	(100)%	**0.0%**	–
Belinda Richards	**5.7%**	0.0%	**0.0%**	(100)%	**0.0%**	–
Nicholas Shott	**22.8%**	0.0%	**(100)%**	(80)%	**0.0%**	–
Kory Sorenson	**12.8%**	0.0%	**0.0%**	(100)%	**0.0%**	–
Mike Tumilty	**0.0%**	0.0%	**0.0%**	(100)%	**0.0%**	–
Wider Employee Population	**4.7%**	3.94%	**1.4%**	7.4%	**9.1%**	5.2%

1 To permit appropriate comparison, full time equivalent figures have been used for Executive Directors.
2 The Taxable Benefits figure used for Andy Briggs includes ongoing taxable benefits only.
3 See page 115 for further details on fees and taxable benefits for Non-Executive Directors.
4 Karen Green and Nicholas Lyons received no taxable benefit in the prior year and therefore it is not possible to show the percentage change.

The Benefits figure for both Executive Directors has increased purely as a result of the increase in premium for providing medical insurance cover. Annual Incentive figures for the Executive Directors are lower than in 2020 due to the lower outturn under the 2021 AIP compared with the 2020 AIP.

The figures for staff more generally are higher than for 2020 due to a number of factors:

- Colleagues from ReAssure and SunLife Limited have been included in the figures for the first year.
- Pay review was operated under a consistent approach with a median increase of 2.4%. In light of the integration of ReAssure colleagues, a number of additional salary increases were awarded to ensure consistency and internal relativities.
- The benefit change is largely as a result of the introduction of the allowance in 2020 in response to COVID-19 to support an increase in costs for colleagues working from home; this figure for 2021 reflects a full 12 month period of payment. Also, as the integration of ReAssure colleagues onto the Group benefits package was not effective until 2022, these colleagues remained on legacy arrangements during 2021.
- The 2021 bonus figure reflects the first full year when all colleagues were under consistent bonus arrangement which included a higher bonus target for certain colleagues. The 2020 figure reflected this change for part of the year only.

Non-Executive Directors fees changed in 2021 following the restructure of Non-Executive fees in order to align more closely with the current external market.

As detailed on page 121 the fee structure is as follows: £75,000 for the role of Non-Executive Director with additional fees of: (i) £20,000 payable for the role of SID; and/or (ii) £30,000 payable where an individual also chairs the Audit, Remuneration, Risk or Sustainability Committee; and £18,000 for the other members of those committees, the Model Governance Committee and attendees to the Life Company Investment Committee. These changes are reflected in the table above.

Directors' service contracts

The dates of contracts and letters of appointment and the respective notice periods for Directors are as follows:

Executive Directors' contracts

Name	Date of appointment	Date of contract	Notice period from either party (months)
Andy Briggs	1 January 2020	7 November 2019	12
Rakesh Thakrar	15 May 2020	6 March 2020	12

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, a UK Government's Business Champion for the Ageing Society Grand Challenge and for Older Workers, and a Trustee of the NSPCC. Rakesh Thakrar is a director of Mythili Megha Limited. Neither Executive Director received any payment for these appointments.

Non-Executive Directors' contracts

Name	Date of letter of appointment	Date of joining the Phoenix Group Holdings Plc Board[1]	Appointment end date	Unexpired term (months)
Alastair Barbour	1 November 2018	1 October 2013	5 May 2022	1
Karen Green	1 November 2018	1 July 2017	5 May 2022	1
Hiroyuki Iioka	23 July 2020	23 July 2020	23 July 2023	16
Nicholas Lyons	1 November 2018	31 October 2018	5 May 2022	1
Wendy Mayall	1 November 2018	1 September 2016	5 May 2022	1
John Pollock	1 November 2018	1 September 2016	5 May 2022	1
Nicholas Shott	1 November 2018	1 September 2016	5 May 2022	1
Belinda Richards	1 November 2018	1 October 2017	5 May 2022	1
Kory Sorenson	1 November 2018	1 July 2014	5 May 2022	1
Mike Tumilty	14 August 2019	1 September 2019	1 September 2022	5

1 All Directors above, other than Hiroyuki Iioka and Mike Tumilty, joined the Phoenix Group Holdings plc Board on 15 October 2018 and services are considered to have commenced with effect from 13 December 2018.
2 The unexpired term is from date of the signing of the accounts and includes whole months only.

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 Chairman) they would be entitled to a one-month notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six-month notice period.

Remuneration Committee governance

The terms of reference of the Committee are available at www.thephoenixgroup.com. The main determinations of the Committee in 2021 in respect of the application of the Remuneration Policy are summarised in the Committee Chairman's letter to shareholders at the start of the Remuneration Report.

The table below shows the independent Non-Executive Directors who served on the Committee during 2021 and their date of appointment:

Member	From	To
Kory Sorenson (Committee Chair from 11 May 2017)	3 July 2014	To date
Karen Green	1 July 2017	To date
Belinda Richards	2 July 2019	To date
Nicholas Shott	20 October 2016	To date

Under the Committee's Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2021, seven formal Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 91.

Consistent with the requirements of Solvency II, the Committee is responsible for establishing, implementing, overseeing and reviewing the Company-wide remuneration policy in the context of business strategy and changing risk conditions. The Company-wide remuneration policy focuses on ensuring sound and effective risk management so as not to encourage risk-taking outside of the Company's risk appetite. None of the Committee members 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 2021

Committee activities	26 January	19 Feb	4 March	13 May	3 August	12 October	24 November
Terms of Reference & Committee activities review	✓						✓
Consideration of risk, control and conduct matters	✓		✓	✓	✓	✓	
Summary of engagement with shareholders and consideration of feedback	✓		✓	✓		✓	
Executive Directors' remuneration							
Review of fixed and variable remuneration			✓				
Annual and long-term incentive performance measures, targets and outcomes	✓	✓	✓	✓	✓	✓	✓
Senior management remuneration							
Review remuneration proposals on recruitment and termination of senior employees			✓	✓	✓	✓	✓
Review of fixed and variable remuneration			✓				
Annual and long-term incentive performance measures, targets and outcomes	✓	✓	✓	✓	✓	✓	✓
All employee remuneration							
All employee discretionary incentive schemes	✓	✓	✓	✓	✓	✓	✓

Advice
During the year, the Committee received independent remuneration advice from its appointed adviser, PwC, who is a member of the Remuneration Consultants Group (the professional body for remuneration consultants) and adheres to its code of conduct. The Remuneration Committee was satisfied that the advice provided by PwC was objective and independent.

PwC also provided general consultancy services to management during the year including support on other Board and Risk matters and technical advice regarding share schemes. Separate teams within PwC provided unrelated services in respect of tax, assurance, risk consulting, 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 2021 were £165,496. These were charged on the basis of the firm's standard terms of business for advice provided.

The Committee assesses the performance of its advisers regularly, the associated level of fees and reviews the quality of advice provided to ensure that it is independent of any support provided to management.

The Group CEO, Group HR Director, Executive Reward Director and Group Financial Controller and delegates, attend by invitation, various Committee meetings during the year. No executive is ever permitted to participate in discussions or decisions regarding his or her own remuneration.

The Committee consults with the Chief Risk Officer (without management present) on a regular basis. The Chief Risk Officer is asked to detail the extent to which the Group has operated within its stated risk appetite during the year and to keep the Committee informed of any risk-related concerns that required the Committee to consider using its judgement to moderate incentive plan outcomes. The Chair of the Remuneration Committee also sits on the Risk Committee to enable additional linkage between risk matters and remuneration outcomes.

Approval
This report in its entirety has been approved by the Remuneration Committee and the Board of Directors and signed on its behalf by:

Kory Sorenson
Remuneration Committee Chair

Approved by the Board on 12 March 2022

Section B
Appendix – remuneration policy

This appendix contains the Directors' remuneration policy approved by the Company's shareholders at the Company's 2020 AGM on 15 May 2020.

General policy

The Remuneration Policy for Executive Directors is summarised in the table below along with the policy on the Chairman's and the Non-Executive Directors' fees.

Overall positioning*

The Company's overall positioning on remuneration for Executive Directors has been updated to reflect the provisions of the new UK Corporate Governance Code, best practice and feedback received from shareholders during consultation.

An appropriate balance is maintained between fixed and variable components of remuneration.

Our updated Remuneration Policy benchmarks the total target remuneration for the Executive Directors using appropriate market data sets.

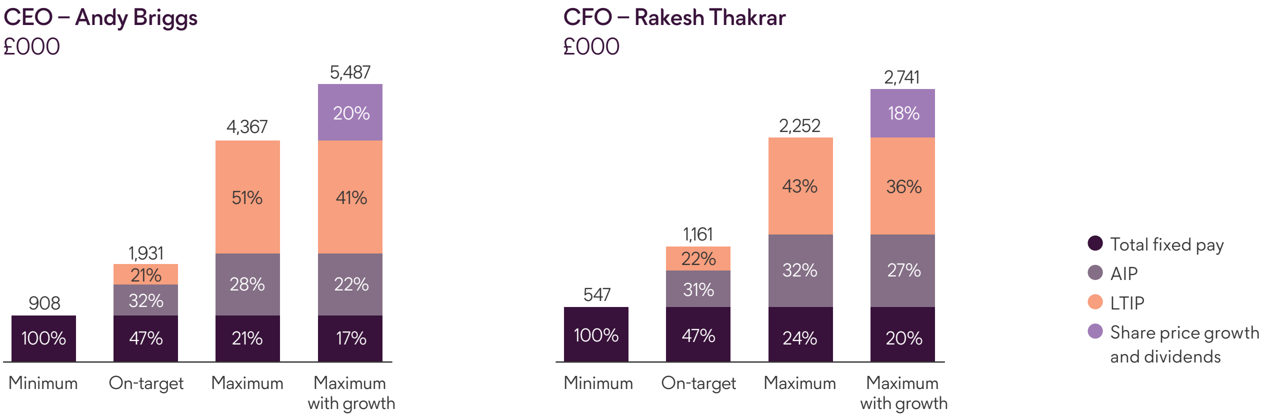
* This section does not form part of the Remuneration Policy and is for information only.

How our policy addresses the following factors set out in the UK Corporate Governance Code 2018

Factor	How this has been addressed
Clarity and simplicity	• The reward framework seeks to embed simplicity and transparency in the design and delivery of remuneration. We have proposed changes to our AIP performance measures (to replace the Personal Performance assessment with a Strategic Scorecard with transparent, measurable metrics, and to replace Management Actions with Net Flows (Workplace)) in order to simplify the AIP assessment process while enhancing alignment to Group strategy. • We have included additional diagrams and charts in this year's Remuneration Report to improve clarity for readers regarding the alignment of Executive remuneration with shareholders and our strategy.
Risk	• The Committee undertakes an annual review of risk before confirming the outcomes for the AIP to ensure that there are no risk-related concerns that require the moderation of AIP outcomes. • Malus and clawback operate in respect of the AIP and LTIPs (see page 134 for details on trigger events). • The Committee may apply discretion to override formulaic outcomes if they are considered inconsistent with the underlying performance of the Group.
Predictability	• The range of potential award levels to individual Executive Directors are set out in the scenario chart on page 129 which also demonstrates the impact of potential share price growth by 50% over the three-year performance period until LTIP vesting.
Proportionality	• A high percentage of rewards are delivered in the form of shares, meaning Executive Directors are strongly aligned with shareholders. We have increased the share ownership guidelines to 300% for the CEO and 250% for the CFO and introduced a post-employment shareholding requirement for our Executive Directors to ensure that they are aligned to the long-term performance of the Group.
	• Executive Directors are required to hold shares from LTIP awards for two years following vesting which provides focus on sustainable share price growth. We have also extended deferral levels under the AIP to further align to shareholders.
Alignment to culture	• We have engaged with our employees through our Colleague Insight Survey and Employee Networks (see further details on page 40 and 44 of our Sustainability Report to develop our values and to improve our understanding of what is required to become a high-performing organisation. Our remuneration philosophy supports our purpose and core values.

Potential rewards under various scenarios (£000)

The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy.



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	812	11	85	908
Rakesh Thakrar	485	11	51	547

Minimum	Consists of base salary, benefits and pension: • Base salary is the salary to be paid in 2022. • Benefits measured as benefits to be paid in 2022. • Pension measured as the full entitlement of approximately 10.5% of base salary receivable (after the reduction to payments made in cash for employers' National Insurance Contributions).
On-target	Based on what the Executive Director would receive if performance was on-target: • AIP: consists of the on-target annual incentive (75% of base salary). • LTIP: consists of the threshold level of vesting (50% of base salary for CEO and CFO). In addition, the potential value of Sharesave and Share Incentive Plan ('SIP') participation is also recognised.
Maximum	Based on the maximum remuneration receivable: • AIP: consists of the maximum annual incentive (150% of base salary). • LTIP: assumes maximum vesting of awards and valued as on the date of grant (award of 200% of base salary for CFO and 275% of base salary for CEO). Sharesave and SIP valued on the same basis as in the on-target row.

Remuneration policy table

Element and purpose in supporting strategic objectives

Base Salary

This is the core element of pay which supports the recruitment and retention of Executive Directors and reflects the individual's role and position within the Group as well as their capability and contribution.

Policy and operation

- Base salaries are reviewed each year against companies of similar size and complexity. Both salary levels and overall remuneration are set by reference to the median data of comparators which the Remuneration Committee considers to be suitable based on index, size and sector.
- The Remuneration Committee uses this data as a key reference point in considering the appropriate level of salary. Other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities, and the level of salary increases awarded to other employees of the Group are also considered.
- Base salary is paid monthly in cash.
- Changes to base salaries normally take effect from 1 April.

Maximum

- Salary levels are specific to the role and individual.
- Maximum salary will be the median level of salaries for CEOs in the FTSE31-100 (currently £800,000), provided that this figure may be increased in line with UK RPI inflation for the duration of this policy.
- However, when reviewing salaries for Executive Directors, the Remuneration Committee will also review the salaries, and salary increases, for senior management and employees in relevant countries to maintain consistency. Percentage increases for Executive Directors will not exceed that of the broader employee population, other than in specific circumstances identified by the Remuneration Committee (e.g. in response to a substantial change in responsibilities).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Benefits

- To provide other benefits valued by recipient.

Policy and operation

- The Group provides market competitive benefits in kind. Details of the benefits provided in each year will be set out in the Implementation Report. The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of the Group to do so, having regard to the particular circumstances and to market practice.
- Where appropriate, the Group will meet certain costs relating to Executive Director relocations and other exceptional expenses.

Maximum

- It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will normally operate within an annual limit of 10% of an Executive Director's base salary.
- The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers to be appropriate in all the circumstances.
- Relocation expenses are subject to a maximum limit of £50,000.

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Pension

- To provide retirement benefits which keep Phoenix Group competitive within the marketplace and provide for the future of our employees.

Policy and operation

- The Group provides a competitive employer sponsored defined contribution pension plan.
- All Executive Directors are eligible to participate in the Defined Pension Contribution plan available to all new joiners or they may opt to receive the contribution in cash if they are impacted by the relevant lifetime or annual limits. Any such cash payments are reduced for the effect of employers' National Insurance Contributions.
- Phoenix will honour the pensions obligations entered into under all previous policies in accordance with the terms of such obligations.

Maximum

- Pension contributions for Executive Directors are aligned with the wider workforce rate which is currently 12% of salary (reduced to 10.5% when taken as cash in lieu of contribution).

Performance measures

- N/A

Element and purpose in supporting strategic objectives

Annual Incentive Plan ('AIP') and Deferred Bonus Share Scheme ('DBSS')

- To motivate employees and incentivise delivery of annual performance targets aligned to strategy.

Policy and operation

- AIP levels and the appropriateness of measures are reviewed annually to ensure they continue to support the Group's strategy.
- AIP outcomes are paid in cash in one tranche (less the deferred share award).
- At least 50% of any annual AIP award is to be deferred into shares for a period of three years although the Remuneration Committee reserves discretion to alter the current practice of deferral (whether by altering the portion deferred, the period of deferral or whether amounts are deferred into cash or shares). Such alterations may be required to ensure compliance with regulatory guidelines for pay within the insurance sector, but will not otherwise reduce the current deferral level or the period of deferral.
- Deferral of AIP outcomes into shares is currently made under the DBSS.
- Awards under DBSS will be in the form of awards to receive shares for nil-cost (with the shares either being delivered automatically at vesting or being delivered at a time following vesting at the individual's choice).
- DBSS awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The three-year period of deferral will run to the third anniversary of the award date.
- Dividend entitlements will accrue over the three-year deferral period and be delivered as additional vesting shares.
- Malus/clawback provisions apply to the AIP and to amounts deferred under DBSS as explained in the notes to this table.

Maximum

- The maximum annual incentive level for an Executive Director is 150% of base salary per annum.

Performance measures

- The performance measures applied to AIP will be set by the Remuneration Committee and may be financial or non-financial and corporate, divisional or individual and in such proportions as it considers appropriate. However, the weighting of financial performance measures will not be reduced below 60% of total AIP potential in any year for the duration of this policy.
- In respect of the financial and non-financial performance measures, attaining the threshold performance level produces a £nil annual incentive payment.
- On-target performance on all measures produces an outcome of 50% of maximum annual incentive opportunity. However, the Remuneration Committee reserves the right to adjust the threshold and target levels for future financial years in light of competitive practice.
- The AIP operates subject to three levels of moderation:
  i. The Committee seeks to set suitable ranges for each measure in the context both of the Group's own internal budgets and of external projections (whether through management guidance or consensus forecasts). Recognising that the business of the Group is to engage in corporate activity, the Remuneration Committee may adjust targets during the year to take account of such activity and ensure the targets continue to reflect performance as originally intended.
  ii. There is a specific adjustment factor of 80%–120% of the provisional outturn whereby the Remuneration Committee may adjust the provisional figure (but subject to any over-riding cap) to take account of its broad assessment of performance both against pre-set targets, risk considerations, and more generally, of the wider universe of stakeholders. With respect to financial performance measures, this assessment will include consideration of the quality of how particular outcomes were achieved.

The AIP remains a discretionary arrangement and the Remuneration Committee reserves discretion to adjust the outturn (from zero to any cap) should it consider that to be appropriate. In particular, the Remuneration Committee may operate this discretion in respect of any risk concern.

Element and purpose in supporting strategic objectives

Long-Term Incentive Plan ('LTIP')

- To motivate and incentivise delivery of sustained performance over the long-term in line with our strategy and purpose, and to promote alignment with shareholders' interests, the Group operates the Phoenix Group Holdings plc LTIP.

Policy and operation

- Awards under the LTIP may be in any of the forms of awards to receive shares for nil-cost (as described for DBSS above).
- LTIP awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The vesting period will be at least three years and run until the third anniversary of the award date (unless a longer vesting period is introduced).
- A holding period will apply so that Executive Directors may not normally exercise vested LTIP awards until the fifth anniversary of the award date.
- Dividend entitlements will accrue until the end of the holding period in respect of performance vested shares and be delivered as additional vesting shares.
- Malus/clawback provisions apply on a basis consistent with the equivalent provisions in the AIP and DBSS and as explained in the notes to this table.
- The Group will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards.

Maximum

- The formal limit under the LTIP is 300% of base salary per annum (and 400% per annum in exceptional cases).
- The Remuneration Committee's practice is to make LTIP awards to Executive Directors each year over shares with a value (as at the award date) of up to 275% of the CEO's annual base salary and 200% of the CFO's annual base salary although discretion is reserved to make awards up to the maximum levels for the policy as stated above.

Performance measures

- The Remuneration Committee may set such performance measures for LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). The measures for the 2020 LTIP are as set out below:

Measure	Weighting
Net Operating Cash Receipts	35%
Return on Shareholder Value	25%
Total Shareholder Return	20%
Persistency	20%

- The Remuneration Committee retains discretion to adjust the weightings or substitute metrics but would expect to consult with its major shareholders regarding any material changes of the current performance measures applied for LTIP awards made to Executive Directors or the relative weightings between these performance measures.
- For every LTIP award, appropriate disclosures regarding the proposed performance conditions will be made in the annual Implementation Report.
- Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to make adjustments to the performance measures to ensure alignment with strategic objectives, provided that any adjusted performance measure is, in its opinion, neither materially more nor less difficult to satisfy than the original measure.
- For each part of an LTIP award subject to a specific performance condition, the threshold level of vesting will be no more than 25% of that part of the LTIP award.
- The performance period for LTIP awards will be at least three years, but the Remuneration Committee reserves discretion to lengthen the applicable performance periods for LTIP awards.

Element and purpose
All-employee share plans

To encourage share ownership by employees, thereby allowing them to participate in the long-term success of the Group and align their interests with those of the shareholders.

Policy and operation
- Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation.

Maximum
- Sharesave – the Remuneration Committee has the facility to allow individuals to save up to a maximum of £500 each month (or such other level as permitted by HMRC legislation) for a fixed period of three or five years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20% of the market price set at the launch of each scheme.
- Share Incentive Plan ('SIP') – the Remuneration Committee has the facility to allow individuals to have the opportunity to purchase, out of their pre-tax salary, shares in the Company and receive up to two matching shares for every purchased share. Maximum saving is £150 each month (or up to such level as permitted by the Company in line with HMRC legislation). SIP also has the facility to allow for reinvestment of dividends in further shares, or the award of additional free shares (up to the limits as permitted by HMRC legislation).

Performance measures
- Consistent with normal practice, such awards are not subject to performance conditions.

Element and purpose
Shareholding guidelines

- To encourage share ownership by the Executive Directors over the long term, including post cessation of employment, and ensure interests are aligned.

Policy and operation
- Executive Directors are expected to retain all shares (net of tax) which vest under the DBSS and under the LTIP (or any other discretionary long-term incentive arrangement introduced in the future) until such time as they hold a minimum of 300% of base salary in shares for the CEO and 250% of base salary in shares for the CFO.
- Only beneficially owned shares, vested share awards, and unvested share awards not subject to performance conditions (discounted for anticipated tax liabilities), may be counted for the purposes of the guidelines. Share awards subject to performance conditions do not count prior to vesting.
- Once shareholding guidelines have been met, individuals are expected to retain these levels as a minimum. The Remuneration Committee will review shareholdings annually in the context of this policy.
- Post cessation of employment, Executive Directors are expected to retain the lower of their full level of employment shareholding guideline or their actual shareholding at termination for a period of two years.

Maximum
- N/A

Performance measures
- N/A

Element and purpose
Chairman and Non-Executive Director fees

Policy and operation
- The fees paid to the Chairman and the fees of the other Non-Executive Directors are set to be competitive with other listed companies of equivalent size and complexity.
- The Group does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum.
- Additional fees are paid to Non-Executive Directors who chair a Board committee, or sit on the board of a subsidiary company or on the Solvency II Model Governance Committee, and to the Senior Independent Director ('SID') and dedicated Workforce Director of Engagement. No separate Board committee membership fees are currently paid.
- Fees are paid monthly in cash.
- Fee levels for Non-Executive Directors are reviewed annually with any changes normally taking effect from 1 January. Additional reviews may take place in exceptional circumstances, such as following major corporate events, to ensure that fees remain appropriate in the context of the Group's size and complexity.

Maximum
- The aggregate fees of the Chairman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £2 million per annum in aggregate).
- The Company reserves the right to vary the structure of fees within this limit including, for example, introducing time-based fees or reflecting the establishment of new Board committees.

Performance measures
- N/A

Notes to the remuneration policy table

1. Differences between the Policy on Remuneration for Directors and the Policy on Remuneration of other employees

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

The Group has (as required by Solvency II regulations) one consistent reward policy for all levels of employees and this policy is made available to all staff. Therefore, the same reward principles guide reward decisions for all Phoenix employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business as follows:

- AIP – all Phoenix employees participate in the AIP, although the quantum and balance of corporate to individual objectives varies by level. The most senior staff are subject to the regulatory requirements of Solvency II, and these individuals also receive part of their bonus in Company shares deferred for a period of three years. A different scorecard of AIP performance measures applies for Solvency II Identified staff in 'control functions' (risk, compliance, internal audit and actuarial) to exclude financial performance measures.
- LTIP – our most senior employees participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below the Board for future awards.
- All-employee share plans – the Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The Company offers two HMRC tax advantaged arrangements in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis (Sharesave and SIP), and equivalent arrangements in foreign jurisdictions (including on a tax advantaged basis permitted under local laws). In addition, selected individuals may receive ad-hoc share awards under the Chairman's Award programme in recognition of exceptional commercial outcomes and is contingent on continued employment.

2. Stating maximum amounts for the Remuneration Policy

The DRR regulations and related investor guidance encourages companies to disclose a cap within which each element of remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

3. Malus and clawback

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP, DBSS and LTIP. These provisions may be applied where the Remuneration Committee considers it appropriate to do so following:

- a review of the conduct, capability or performance of an individual;
- a review of the performance of the Company or a Group member;
- any material misstatement of the Company's or a Group member's financial results for any period;
- any material failure of Risk Management by an individual, a Group member or the Company; or
- any other circumstances that have a sufficiently significant impact on the reputation of the Company or Group.

4. Travel and hospitality

While the Remuneration Committee does not consider this to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and certain instances of business travel (including any related tax liabilities settled by the Company or another Group company) for Directors may technically be considered as benefits and so the Remuneration Committee expressly reserves the right to authorise such activities and reimbursement of associated expenses within its agreed policies.

5. Discretions reserved in operating incentive plans

The Remuneration Committee will operate the AIP, DBSS and LTIP according to their respective rules and the above Remuneration Policy table. The Remuneration Committee retains certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

- (as described in the Remuneration Policy table) the determination of performance measures and targets and resulting vesting and pay-out levels;
- (as described in the Remuneration Policy table) the ability to adjust performance measures and targets to reflect events and/or to ensure the performance measures and targets operate as originally intended;
- (as described in the Termination Policy) determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the treatment of the incentive plans on exceptional events, such as a change of control of the Company;
- 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 128 and 131).

Recruitment remuneration policy

The Group's recruitment remuneration policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy.

The AIP and LTIP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer. For such buy-out awards, Phoenix Group will not pay more than is, in the view of the Remuneration Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such awards on terms that are more bespoke than the existing annual and equity-based pay structures in Phoenix Group in order to secure a candidate. Details of any buy-out awards will be appropriately disclosed.

All such buy-out awards, whether under the AIP, LTIP or otherwise (for example, specific arrangements made under Listing Rule 9.4.2), will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Remuneration Committee will seek to make buy-out awards subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed), and where the Remuneration Committee considers it to be in the interests of shareholders and where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited. Exceptionally, where necessary, this may include a guaranteed or non pro-rated annual incentive in the year of joining.

- For the avoidance of doubt, such buy-out awards are not subject to a formal cap.
- A new Non-Executive Director would be recruited on the terms explained in the Remuneration Policy for such Directors.

Directors' service contracts

Executive Directors

Executive Director service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to 12 months of salary, certain fixed benefits and pension (which may be payable in instalments and subject to mitigation). By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Remuneration Committee believes the contracts to be consistent with best practice. The Remuneration Committee also has discretion to mitigate further by paying on a phased basis with unpaid instalments ceasing after the initial period of six months if the Executive Director finds alternative employment. Contracts do not contain change of control provisions. The template contract is reviewed from time to time and may be amended provided it is not overall more generous than the terms described above.

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group.

Non-Executive Directors

The Non-Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for an initial fixed term of three years (which may be renewed), terminable by one month's notice from either side (six months in the case of the Chairman). Non-Executive Directors are not eligible to participate in incentive arrangements or receive pension provision or other benefits such as private medical insurance and life insurance.

Copies of Executive Director service contracts and Non-Executive Director letters of appointment are available for inspection at the Company's registered office.

Termination policy summary

In practice, the facts surrounding any termination do not always fit neatly into defined categories for good or bad leavers. Therefore, it is appropriate for the Remuneration Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP, DBSS and LTIP plans. The potential treatments on termination under these plans are summarised below.

Incentives	Good Leaver[1]	Bad Leaver	Exceptional Events
	A participant is considered a Good Leaver if leaving through redundancy, serious ill health or death or otherwise at the discretion of the Remuneration Committee	A participant would typically be considered a Bad Leaver following a voluntary resignation or leaving for disciplinary reasons	For example change in control or winding-up of the Company
AIP	Pro-rated annual incentive. Pro-rating to reflect only the period worked. Performance metrics determined by the Remuneration Committee	No awards made	Either the AIP will continue for the year or there will be a pro-rated annual incentive. Performance metrics determined by the Remuneration Committee
DBSS	Deferred awards vest at the end of the original vesting period	Deferred awards normally lapse	Deferred awards vest
LTIP	Will receive a pro-rated award subject to the application of the performance conditions at the normal measurement date and, generally, any holding period will continue to apply Remuneration Committee discretion to disapply pro-rating or to accelerate vesting to the date of leaving (subject to pro-rating and performance conditions) and/or the release of any holding period	All awards will normally lapse	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event. Remuneration Committee discretion to disapply pro-rating

1 Where the reason for leaving is retirement, the individual will be required to provide confirmation of their continued retirement before any payments are released to them after the end of the vesting period.

The Group has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of termination of an Executive Director, the Group may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one month's notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six months' notice period.

Consideration of employment conditions elsewhere in the Group

As explained in the notes to the Remuneration Policy table, the Remuneration Committee takes into account Group-wide pay and employment conditions. The Remuneration Committee reviews the average Group-wide base salary increase and annual incentive costs and is responsible for all discretionary and all-employee share arrangements.

Consistent with previous practice, the Remuneration Committee did not consult with employees in preparing the 2020 Remuneration Policy although has established further employee engagement in 2019 in accordance with the requirement under the Corporate Governance Code.

Consideration of shareholders' views

Each year the Remuneration Committee takes into account the approval levels of remuneration-related matters at our AGM in determining that the current Remuneration Policy remains appropriate for the Company.

The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The Remuneration Committee consulted with shareholders prior to submission of this policy. The previous Remuneration Policy was submitted to shareholders at the 2019 AGM due to the completion of a Scheme of Arrangement in 2018 and this was approved with 99.7% support.

Directors' report

The Directors present their report for the year ended 31 December 2021. Phoenix Group Holdings plc is incorporated in the United Kingdom (registered no. 11606773) and has a Premium Listing on the London Stock Exchange.

Shareholders

Dividends

Dividends for the year ended 31 Dec 2021

Dividends for the year are as follows:	
Ordinary shares	
Paid interim dividend	24.1p per share (2020: 23.4p per share)
Recommended final dividend	24.82p per share (2020: 24.1p per share)
Total ordinary dividend	48.92p per share (2020: 47.5p per share)

As a result of regulatory changes applicable to the Group under Solvency II, dividends declared in respect of the Company's ordinary shares must be capable of being cancelled and withheld or deferred at any time prior to payment. This is in order that the Company's ordinary shares can be counted towards Group capital. Accordingly, the final dividend will be declared on a conditional basis and the Directors reserve the right to cancel or defer the recommended dividend. The Directors do not expect to exercise this right other than where they believe that it may be necessary to do so as a result of legal or regulatory requirements.

Share capital

Issued Share Capital

The issued share capital of the Company was increased by 303,914 during 2021 which related to shares issued under the Company's Sharesave Scheme.

At 31 December 2021, the issued ordinary share capital totalled 999,536,058. Subsequently, 18,212 ordinary shares have been issued in 2022 in connection with the Group's Sharesave Scheme to bring the total in issue to 999,554270 at the date of this Directors' Report.

Full details of the issued and fully paid share capital as at 31 December 2021 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 2021 AGM, shareholders approved the renewal of the Company's authority to make purchases of up to 99,923,742 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 2021. The authority will expire at the 2022 AGM. A resolution to renew this authority shall be proposed in the 2022 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/corporate-governance/articles-of-association.aspx

Phoenix Group Employee Benefit Trust ('EBT')

Where the Phoenix Group Employee Benefit Trust ('EBT') holds shares for unvested awards, the voting rights for these shares are exercisable by the trustees of the EBT at their discretion, taking into account the recommendations of the Group.

Restrictions on transfer of shares

Under the Company's Articles, the Directors may in certain circumstances refuse to register transfers of shares. Certain restrictions on the transfer of shares may be imposed from time to time by applicable laws and regulations (for example, insider trading laws), and pursuant to the Listing Rules of the Financial Conduct Authority ('FCA') and the Group's own share dealing rules whereby Directors and certain employees of the Group require individual authorisation to deal in the Company's ordinary shares.

Substantial shareholdings

Information provided to the Company pursuant to 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 8 March 2022, the following interests with voting rights in the Ordinary share capital of the Company had been notified to it under DTR 5.

Name	Number of voting rights in shares	Percentage of shares in issue
MS&AD Insurance Group Holdings Inc.	144,877,304	14.50%
abrdn plc	107,046,350	10.71%
BlackRock, Inc.	51,251,518	5.12%

"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

Shareholders	
Annual General Meeting ('AGM')	
2022 AGM	The AGM of the Company will be held at 9th Floor, 20 The Old Bailey, London, EC4M 7AN on Thursday 5 May 2022 at 10.00am. A separate notice convening this meeting will be distributed to shareholders in due course and will include an explanation of the items of business to be considered at the meeting.
Investor communications	
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 2021 is given within the Corporate Governance Report on pages 74 to 76, which is incorporated by reference into this Directors' Report. During 2021 and up to the date of this Directors' Report, the following change to the Board took place: • Christopher Minter, Swiss Re Nominated Director, resigned from the Board on 25 June 2021.
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 the appointment. In accordance with the UK Corporate Governance Code, Directors must stand for election/re-election annually. The Board of Directors will be unanimously recommending that all of the Directors should be put forward for election/re-election at the forthcoming AGM to be held on 5 May 2022. 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 including details of their interests in shares and share options or any rights to subscribe for shares in the Company.
Directors' indemnities	The Company has entered into deeds of indemnity with each of its Directors whereby the Company has agreed to indemnify each Director against all losses incurred by them in the exercise, execution or discharge of their powers or duties as a Director of the Company, provided that the indemnity shall not apply when prohibited by any applicable law. The deeds of indemnity remain in-force as at the date of signature of this Directors' Report.
Directors' conflicts of interest	The Board has established procedures for handling conflicts of interest in accordance with the Companies Act 2006 and the Company's Articles. See page 77 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 also provides details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. The Strategic Report includes details of the Group's cash flow and solvency position, including sensitivities for both. Principal risks and their mitigation are detailed on pages 58 to 65. 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.

The Board has followed the requirements of the UK Financial Reporting Council's ('FRC') 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014)' and taken into account the requirements of the pronouncement from the FRC's Financial Reporting Lab, 'COVID-19 – Going concern, risk and viability', when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are a going concern, the Board has considered financial projections over the period to 31 March 2023, 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 66 to 67.

In assessing the appropriateness of the going concern basis, the Board considered base case liquidity and solvency projections that incorporate a best estimate of credit downgrade experience. In addition, severe but plausible stress scenarios were also modelled. 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, and note the Group's access to additional funding through it's undrawn £1.25 billion Revolving Credit Facility.

The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence over the period to 31 March 2023, 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 2021.

Viability statement

The Viability Statement, as required by the UK Corporate Governance Code, has been undertaken for a period of five years to align to the Group's business planning and is contained in the Risk Management section on pages 66 to 67.

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 105 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 full details on the Company's compliance with the Code are included in the Corporate Governance Report on pages 72 to 105. The Code is available on the website of the Financial Reporting Council – www.frc.org.uk.

The disclosures required by the Companies Act 2006 in respect of the following matters are set out in the Strategic Report, as below:

Our strategy and future developments	The Company's strategy and priorities for 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 the Company's Sustainability Report See also pages 20 to 21 the Strategic 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 page 82 of the Corporate Governance Report (for colleague engagement) and 43 (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 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 48 to 50 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 51 to 53 due to their strategic importance. During 2021, significant progress has been made in implementing and embedding the recommendations of the TCFD and complying with the requirements of the Bank of England's 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.
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 2021 to 31 December 2021, and the 2020 comparative year is contained in the Strategic Report on pages 48 to 50.
Branches	The Company, through its subsidiaries, has established branches in Hong Kong and Ireland as countries in which the Group operates.
Political donations	During 2021, the Group made no political donations. (2020: 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/corporate-governance/articles-of-association.aspx
Re-appointment of the Auditors	Ernst & Young LLP ('EY') has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 5 May 2022. 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 2021 for audit and non-audit work are disclosed in note C4 to the IFRS consolidated financial statements.
Disclosure of information to Auditors	The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
Group Company Secretary	The Group Company Secretary throughout the 2021 financial period was Gerald Watson.
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 provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans. Apart from the aforementioned, there are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts. None is considered to be significant in terms of their potential impact on the business of the Group.
Important post balance sheet events	Details of important events affecting the Company which have occurred since the end of the financial year are contained in note I7 to the IFRS consolidated financial statements.
Disclosures under Listing Rule 9.8.4R	For the purposes of Listing Rule 9.8.4CR, 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 2021, 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 12 March 2022.

By order of the Board

Andy Briggs
Group Chief
Executive Officer

Rakesh Thakrar
Group Chief
Financial Officer

12 March 2022

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 2021 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 2021 which comprise:

Group	Parent Company
Consolidated income statement for the year ended 31 December 2021	Statement of changes in equity for the year ended 31 December 2021
Statement of comprehensive income for the year ended 31 December 2021	Statement of cash flows for the year ended 31 December 2021
Statement of consolidated financial position as at 31 December 2021	Statement of financial position as at December 2021
Statement of consolidated changes in equity for the year ended 31 December 2021	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 2021	
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 2023;
- with support from our actuarial team, challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Group. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessed the accuracy of management's analysis by testing the inputs and the clerical accuracy of the models used;
- evaluated the liquidity and solvency position of the Group by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic downturn that is anticipated to be experienced due to the ongoing impacts of COVID-19;
- challenged the key assumptions, such as expense assumptions underlying mandatory obligations of the Group and property

market forecasts up to 31 March 2023, 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 and 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 2023.

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 on pages 146 and 147. • The components where we performed full or specific audit procedures accounted for more than 99% of the equity and profit before tax of the Group.
Key audit matters	• Valuation of insurance contract liabilities, comprising the following risk areas: - actuarial assumptions; - actuarial modelling; and - data. • Valuation of certain complex and illiquid financial investments. • Recoverability of intangible assets arising from the acquisition of ReAssure Limited, Standard Life Assurance Limited and other acquired entities.
Materiality	• Overall Group materiality of £116 million (2020: £140 million) which represents 2% (2020: 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. 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').

Four of the reporting components were audited by component teams as set out below:

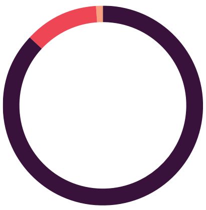
Component	Scope	Auditor
Phoenix Life Division (includes Phoenix Life Limited and Phoenix Life Assurance Limited) (collectively known as 'PLD')	Full	EY component team
Standard Life Assurance Limited ('SLAL')	Full	EY component team
ReAssure Limited ('RAL')	Full	EY component team
Group Function	Full	EY primary team
Other Companies	Specific (including specified procedures)	EY component team

Of the five reporting components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. For the remaining Other Companies component, we performed audit procedures on specific accounts of Phoenix Life and Standard Life service companies (provisions, accruals and deferred income, administrative expenses excluding acquisition costs), ReAssure Life Limited (collective investment schemes), ReAssure UK Services Limited (administrative expenses excluding acquisition costs), ReAssure MidCo Limited (pension scheme surplus) and ERIP Limited Partnership (derivative liabilities). We also instructed the SLIDAC component audit team to perform specified procedures over insurance contract liabilities relating to the contracts in the entity prior to the business transfer from SLAL in 2019.

The reporting components where we performed audit procedures accounted for 99% (2020: 99%) of the Group's equity and 98% (2020: 99%) of the Group's loss before tax. For the current year, the full scope components contributed 87% (2020: 84%) of the Group's equity and 75% (2020: 88%) of the Group's loss before tax. The specific scope components, including the component with specified procedures, contributed 12% (2020: 15%) of the Group's equity and 23% (2020: 11%) 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.

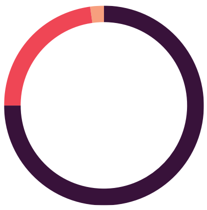
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Equity



Full scope	87%
Specific scope	12%
Out of scope	1%

Loss before tax



Full scope	75%
Specific scope	23%
Out of scope	2%

Changes from the prior year

During the year the Group disposed of Ark Life Assurance DAC. Therefore, this is no longer in scope for the year ended 31 December 2021.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary audit team.

Of the four full scope components, audit procedures were performed on one of these directly by the primary audit team whilst the remaining three components were audited by the component audit teams. For Other Companies, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

For all full scope components, the primary audit team reviewed key working papers and participated in the component teams' planning, including the component teams' discussion of fraud and error. The primary audit team attended the closing meetings with the management of the Phoenix Life Division, Standard Life Assurance Limited and ReAssure Limited and the Audit Committee meetings at the components.

For the specific scope component, the primary audit team have reviewed the audit procedures performed by the component team on the specific accounts, 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 Phoenix. 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 51 to 53 in the required Task Force for Climate related Financial Disclosures, and on page 61 in the principal risks and uncertainties, which form part of the "Other information" rather than the audited financial statements. Our procedures on these 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 or otherwise appear to be materially misstated.

As explained in note A3.8 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 asset values and associated disclosures where values are determined through modelling future cash flows. 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.

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 (£130.7bn; 2020: £135.7bn)

Refer to the Audit Committee Report (page 100); Critical accounting estimates (page 164); Accounting policies and note F1 of the consolidated financial statements (pages 221 to 224)

We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events, both internal and external to the business, for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of the data.

We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:
- actuarial assumptions;
- actuarial modelling; and
- data.

The specific audit procedures performed to address the significant risk are set out below. In addition, we assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements as this provided important audit evidence over the valuation of insurance contract liabilities.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions Refer to the Audit Committee Report (page 100); There has been no change in our assessment of this risk from the prior year other than in respect of expenses where we consider the risk to have increased. 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. Management has performed a review of expense assumptions reflecting the change in strategic direction of the Group resulting in a decrease in expense assumptions of £200m.	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 longevity improvements, we evaluated the results of management's analysis on longevity trend, challenged the judgments applied by management in setting the parameters and benchmarked the output against other industry participants and the results from the industry standard Continuous Mortality Investigation ('CMI'); • assessed the expense assumptions adopted by management. 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 scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, 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 SLAL business to a new actuarial model this year increases the risk of error. We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £120bn of the £130.7bn (2020: over £126.0bn of £135.7bn) 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 and ii. the appropriateness of the core actuarial model.	To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, using EY actuaries as part of our audit team we performed the following procedures: • obtained an understanding of management's process for model changes to the core actuarial system and tested the design, implementation and operating effectiveness of key controls over that process; • 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 SLAL business on to 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. We performed full scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined that the models used are appropriate, that changes to the models were implemented as intended, and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling systems were operating effectively. We also determined that liabilities modelled outside these core actuarial modelling systems are reasonable.
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; • 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 an 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 scope audit procedures over this risk area in four components representing 99% of the risk amount.	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of certain complex and illiquid financial investments (Equity release mortgages £4.2bn; 2020: £3.5bn); (Modelled debt securities £7.0bn; 2020: £5.7bn) There has been no change in our assessment of this risk from the prior year. Refer to the Audit Committee Report (page 100); Critical accounting estimates (page 164); Accounting policies and notes E1 and E2 of the consolidated financial statements (pages 189 to 201). 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 that 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.	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 • 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 2021, 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 2021 to 31 December 2021 to review that the controls over the valuation of modelled debt securities were operating during the period. In addition, we tested a sample of these controls in the bridging period to confirm they were operating effectively; • inspected evidence of the operation of management's oversight controls over the OSPs; • 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; • 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 financial investments is reasonable.

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 (£3,846m; 2020: £4,457m) Refer to the Audit Committee Report (page 100), critical accounting estimates (page 165), the accounting policies and note G2 of the consolidated financial statements (pages 253 to 256). 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 bn. 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. This entails the application of a number of assumptions and judgments. Recoverability assessment of these intangible assets involves consideration of a number of judgmental and sensitive assumptions such as: • market movements and their impact on economic assumptions such as cost of capital; • significant changes to core valuation assumptions, being: lapses, longevity, late retirements. 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 the controls over the completeness and accuracy of the data used in the recoverability assessment; • challenged management's assessment of impairment indicators by considering current market factors and assumption changes not modelled in the fair value exercise at the acquisition date and assessed their impact on the ReAssure and Standard Life AVIF values as at 31 December 2021; and • obtained management's expectations of future profitability of the acquired entities and challenged the assumptions applied by management by comparing key assumptions and judgments with 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 the impairment recorded is necessary and sufficient at 31 December 2021.

In the prior year, we included a key audit matter in relation to the "Accounting for the acquisition of ReAssure Limited and other associated entities". In the current year, this risk has been removed and incorporated within our ongoing review of Recoverability of intangible assets.

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 £116 million (2020: £140million), which is 2% (2020: 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 £148 million (2020: £143 million), which is 2% (2020: 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 – £6,769m (Total equity)
- Based on 31 December 2021

Adjustments
- Details of adjustments – £954m
- Removal of NCI and Tier 1 loan notes

Materiality
- Totals £5,815m (Adjusted equity)
- Materiality of £116m (2% of equity)

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% (2020: 50%) of our planning materiality, namely £58 million (2020: £70 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 £12 million to £32 million (2020: £14 million to £38 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 £6 million (2020: £7 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 141 and 313 to 330, 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.

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 139;
- 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 66;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities set out on page 67;
- Directors' statement on fair, balanced and understandable set out on page 140;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 58;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 97; and;
- The section describing the work of the audit committee set out on pages 96 to 100.

Responsibilities of Directors

As explained more fully in the Directors' statement of responsibilities set out on page 141, 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 operate remotely throughout 2021.
- 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 journals; and
  - evaluating the business rationale for significant and/or unusual transactions.

- 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 https://www.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 four years, covering the years ending 31 December 2018 to 2021.
- 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
12 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Gross premiums written		7,455	4,706
Less: premiums ceded to reinsurers	F3	(2,079)	(796)
Net premiums written		5,376	3,910
Fees and commissions	C1	1,001	794
Total revenue, net of reinsurance payable		6,377	4,704
Net investment income	C2	18,001	16,935
Other operating income		76	121
Gain on completion of abrdn plc transaction	A6.1	110	–
Loss on disposal of Ark Life	H3	(23)	–
Gain on acquisition of ReAssure businesses	H2.1	–	372
Gain on L&G Part VII portfolio transfer	H2.2	–	85
Net income		24,541	22,217
Policyholder claims		(9,656)	(7,808)
Less: reinsurance recoveries		1,597	1,613
Change in insurance contract liabilities		3,076	(3,249)
Change in reinsurers' share of insurance contract liabilities		(177)	(568)
Transfer from/(to) unallocated surplus	F2	106	(113)
Net policyholder claims and benefits incurred		(5,054)	(10,125)
Change in investment contract liabilities		(16,812)	(7,991)
Amortisation and impairment of acquired in-force business	G2	(577)	(469)
Amortisation of other intangibles	G2	(20)	(18)
Impairment of goodwill	G2	(47)	–
Administrative expenses	C3	(2,056)	(1,674)
Net income/(expense) under arrangements with reinsurers	F3.3	22	(219)
Net income attributable to unitholders		(185)	(217)
Total operating expenses		(24,729)	(20,713)
(Loss)/profit before finance costs and tax		(188)	1,504
Finance costs	C5	(242)	(234)
(Loss)/profit for the year before tax		(430)	1,270
Tax charge attributable to policyholders' returns	C6	(258)	(326)
(Loss)/profit before the tax attributable to owners		(688)	944
Tax charge	C6	(279)	(436)
Add: tax attributable to policyholders' returns	C6	258	326
Tax charge attributable to owners	C6	(21)	(110)
(Loss)/profit for the year attributable to owners		(709)	834

Consolidated income statement

Continued

	Notes	2021 £m	2020 £m
Attributable to:			
Owners of the parent		(837)	798
Non-controlling interests	D5	128	36
		(709)	834
Earnings per ordinary share			
Basic (pence per share)	B3	(86.4)p	91.8p
Diluted (pence per share)	B3	(86.4)p	91.5p

Statement of comprehensive income

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
(Loss)/profit for the year		(709)	834
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		44	129
Reclassification adjustments for amounts recognised in profit or loss		(36)	(79)
Exchange differences on translating foreign operations		(45)	33
Foreign currency translation reserve recycled to profit or loss on disposal of Ark Life	H3	14	–
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit asset/liability	G1	281	(21)
Tax charge relating to other comprehensive income items	C6	(138)	(37)
Total other comprehensive income for the year		120	25
Total comprehensive (expense)/income for the year		(589)	859
Attributable to:			
Owners of the parent		(717)	823
Non-controlling interests	D5	128	36
		(589)	859

Statement of consolidated financial position

As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Pension scheme asset	G1	36	11
Reimbursement rights	G1	212	–
Intangible assets			
Goodwill		10	57
Acquired in-force business		4,323	5,013
Other intangibles		232	171
	G2	4,565	5,241
Property, plant and equipment	G3	130	119
Investment property	G4	5,283	7,128
Financial assets			
Loans and deposits		475	647
Derivatives	E3	4,567	6,880
Equities		86,981	82,634
Investment in associate		431	400
Debt securities		104,761	109,455
Collective investment schemes		85,995	89,248
Reinsurers' share of investment contract liabilities		9,982	9,559
	E1	293,192	298,823
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	8,587	9,542
Reinsurance receivables		69	141
Insurance contract receivables		70	94
		8,726	9,777
Current tax	G8	419	263
Prepayments and accrued income		373	343
Other receivables	G5	1,805	1,622
Cash and cash equivalents	G6	9,112	10,998
Assets classified as held for sale	A6.1	9,946	–
Total assets		333,799	334,325

	Notes	2021 £m	2020 £m
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	D1	100	100
Share premium		6	4
Shares held by employee benefit trust	D2	(12)	(6)
Foreign currency translation reserve		71	102
Merger relief reserve	D1	1,819	1,819
Other reserves	D3	56	48
Retained earnings		3,775	4,970
Total equity attributable to owners of the parent		5,815	7,037
Tier 1 Notes	D4	494	494
Non-controlling interests	D5	460	341
Total equity		6,769	7,872
Liabilities			
Pension scheme liabilities	G1	3,103	2,036
Insurance contract liabilities			
Liabilities under insurance contracts	F1	128,864	133,907
Unallocated surplus	F2	1,801	1,768
		130,665	135,675
Financial liabilities			
Investment contracts		160,417	165,106
Borrowings	E5	4,225	4,567
Deposits received from reinsurers		3,569	4,080
Derivatives	E3	1,248	1,001
Net asset value attributable to unitholders		3,568	3,791
Obligations for repayment of collateral received		3,442	5,205
	E1	176,469	183,750
Provisions	G7	235	282
Deferred tax	G8	1,399	1,036
Reinsurance payables		143	134
Payables related to direct insurance contracts	G9	1,864	1,669
Current tax	G8	19	–
Lease liabilities	G10	99	84
Accruals and deferred income	G11	567	521
Other payables	G12	721	1,266
Liabilities classified as held for sale	A6.1	11,746	–
Total liabilities		327,030	326,453
Total equity and liabilities		333,799	334,325

Statement of consolidated changes in equity

For the year ended 31 December 2021

	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 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 the employee benefit trust	–	–	10	–	–	–	(10)	–	–	–	–
Shares acquired by the 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 changes in equity

For the year ended 31 December 2020

	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 2020	72	2	(7)	69	–	(2)	4,651	4,785	494	314	5,593
Profit for the year	–	–	–	–	–	–	798	798	–	36	834
Other comprehensive income/(expense) for the year	–	–	–	33	–	50	(58)	25	–	–	25
Total comprehensive income for the year	–	–	–	33	–	50	740	823	–	36	859
Issue of ordinary share capital, net of associated commissions and expenses	28	2	–	–	1,819	–	–	1,849	–	–	1,849
Dividends paid on ordinary shares	–	–	–	–	–	–	(403)	(403)	–	–	(403)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(9)	(9)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	13	13	–	–	13
Shares distributed by employee benefit trust	–	–	8	–	–	–	(8)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(7)	–	–	–	–	(7)	–	–	(7)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(23)	(23)	–	–	(23)
At 31 December 2020	100	4	(6)	102	1,819	48	4,970	7,037	494	341	7,872

Statement of consolidated cash flows

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Cash (utilised)/generated by operations	I2	(871)	7,316
Taxation paid		(149)	(562)
Net cash flows from operating activities		(1,020)	6,754
Cash flows from investing activities			
Proceeds from completion of abrdn plc transaction	A6	115	–
Disposal of Ark Life, net of cash disposed	H3	189	–
Acquisition of ReAssure businesses, net of cash acquired	H2.1	–	(979)
Net cash flows from investing activities		304	(979)
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses		2	2
Ordinary share dividends paid	B4	(482)	(403)
Dividends paid to non-controlling interests	D5	(9)	(9)
Repayment of policyholder borrowings	E5.2	(18)	(55)
Repayment of shareholder borrowings	E5.2	(322)	–
Repayment of lease liabilities	G10	(16)	(18)
Proceeds from new shareholder borrowings, net of associated expenses	E5.2	–	1,445
Proceeds from new policyholder borrowings, net of associated expenses	E5.2	17	–
Coupon paid on Tier 1 Notes		(29)	(29)
Interest paid on policyholder borrowings		–	(5)
Interest paid on shareholder borrowings		(237)	(171)
Net cash flows from financing activities		(1,094)	757
Net (decrease)/increase in cash and cash equivalents		(1,810)	6,532
Cash and cash equivalents at the beginning of the year		10,998	4,466
Less: cash and cash equivalents of operations classified as held for sale	A6.1	(76)	–
Cash and cash equivalents at the end of the year		9,112	10,998

Notes to the consolidated financial statements

A. Significant accounting policies

A1. Basis of preparation

The consolidated financial statements for the year ended 31 December 2021 set out on pages 155 to 293 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 12 March 2022.

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, including collective investment schemes, where the Group exercises overall control. In accordance with the principles set out in IFRS 10 *Consolidated Financial Statements*, the Group controls an investee if and only if the Group has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Further details about the consolidation of subsidiaries, including collective investment schemes, are included in note H1.

Going concern

The consolidated financial statements have been prepared on a going concern basis. In assessing whether the Group is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council ('FRC'), Guidance for Directors of UK Companies Going Concern and Liquidity, in October 2009. The considerations and approach are consistent with FRC provisions issued in September 2014 and the assessment has taken into account the requirements of the pronouncement from the Financial Reporting Lab, 'Covid-19 – Going concern, risk and viability'. Further details of the going concern assessment for the period to 31 March 2023 are included in the Directors' Report on page 139.

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.

Notes to the consolidated financial statements

Continued

A. Significant accounting policies continued

A2. Accounting policies continued

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 and taken to the foreign currency translation reserve within equity.

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.

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 operating profit, identification of intangible assets arising on acquisitions, the recognition of an investment as an associate and determination of control with regards to underlying entities. Details of all critical accounting estimates and judgements are included below.

A3.1 Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in the accounting policies in note F1 with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note F4. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.

The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivities arising from significant non-economic assumptions are detailed on page 228 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 Operating profit
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 operating profit based on risk-free yields at the start of the financial year, as detailed in note B2, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in note B1.

A3.6 Acquisition of the ReAssure businesses
The identification and valuation of identifiable intangible assets, such as acquired in-force business, arising from the Group's acquisition of the ReAssure businesses during the prior year, required the Group to make a number of judgements and estimates. Further details are included in notes G2 'Intangible assets' and H2 'Acquisitions and portfolio transfers'.

A3.7 Control and consolidation
The Group has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Group controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control in line with the requirements of IFRS 10 *Consolidated Financial Statements*. The control assessment therefore involves a number of further considerations such as whether the Group has a unilateral power of veto in general meetings and whether the existence of other agreements restrict the Group from being able to influence the activities. Further details of these judgements are given in note H1.

A3.8 Impact of climate risk on 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.

Notes to the consolidated financial statements

Continued

A. Significant accounting policies continued

A3. Critical accounting estimates and judgements continued

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 fair value is assumed to include current information and knowledge 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 51 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 2021, 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 intangibles is based on value in use calculations. Value in use represents the value of future cash flows and uses the Group's five year annual operating plan and the expectation of long-term economic growth beyond this period. The five 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 2021

In preparing the consolidated financial statements, the Group has adopted the following standards, interpretations and amendments effective from 1 January 2021:

- **Amendment to IFRS 16 *Leases* COVID-19-Related Rent Concessions beyond 30 June 2021 (1 June 2020):** The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Group does not expect to make use of this practical expedient.
- **Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (1 January 2021):** The changes introduced in Phase 2 of the Interest Rate Benchmark Reform project relate to the modification of financial assets, financial liabilities and lease liabilities (introducing a practical expedient for modifications required by the IBOR reform), specific hedge accounting requirements to ensure hedge accounting is not discontinued solely because of the IBOR reform, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The IASB also amended IFRS 4 to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform.

  Additional disclosures have been included in note E6.1 to provide details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Group to manage the risks relating to the reform.
- **Amendments to IFRS 4 *Insurance Contracts* – Extension of the Temporary Extension for applying IFRS 9 *Financial Instruments* (1 January 2021):** Following the issue of IFRS 17 *Insurance Contracts (Revised)* in June 2020, the end date for applying the two options under the IFRS 4 amendments (including the temporary exemption from IFRS 9) was extended to 1 January 2023, aligning the date with the revised effective date of IFRS 17. The Group has taken advantage of this extension to align the implementation of IFRS 9 and IFRS 17.

A5. New accounting pronouncements not yet effective

The IASB has issued the following standards or amended standards and interpretations which apply from the dates shown. The Group has decided not to early adopt any of these standards, amendments or interpretations where this is permitted.

- **IFRS 9 *Financial Instruments* (1 January 2023):** Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model will require the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Group's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. Following the acquisition of the ReAssure businesses on 22 July 2020, this assessment was re-performed and the Group's activities were still considered to be predominantly connected with insurance.

IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) effective from 1 January 2023. During the year, the Group continued its implementation activities in respect of IFRS 9 and expects to continue to value the majority of its financial assets at fair value through profit or loss on initial recognition, either as a result of these financial assets being managed on a fair value basis or as a result of using the fair value option to irrevocably designate the assets at fair value through profit or loss. A number of additional disclosures will be required by IFRS 7 *Financial Instruments: Disclosures* as a result of implementing IFRS 9.

Additional disclosures have been made in note E1.2 to the consolidated financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.

- **IFRS 3 *Business Combinations* (1 January 2022):** The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. There are no impacts from this amendment.
- **IAS 16 *Property, Plant and Equipment* (1 January 2022):** The amendments prohibit the Group from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Group is preparing the asset for its intended use. Instead, such sales proceeds and related costs should be recognised in profit or loss. These amendments do not currently have any impact on the Group.
- **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (1 January 2022):** The amendments specify which costs a company includes when assessing whether a contract will be loss making. These amendments are not expected to have any impact on the Group.
- **Annual Improvements Cycle 2018 – 2020 (1 January 2022):** Minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*. These amendments do not currently have any impact on the Group.
- **IFRS 17 *Insurance Contracts* (1 January 2023):** Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Group measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users.

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 will be measured under IFRS 9.

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 groups 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 group, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

The standard introduces three measurement approaches, of which two, the general model and the variable free 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').

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.

Notes to the consolidated financial statements

Continued

A. Significant accounting policies continued

A5. New accounting pronouncements not yet effective continued

The CSM represents the unearned profit of a group of insurance contracts and is recognised in profit or loss as the insurance 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 income statement. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the 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.

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.

IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a simplified retrospective approach or a fair value approach to determine the contractual service margin.

The measurement principles set out in IFRS 17 will significantly change the way in which the Group measures its insurance contracts and investment contracts with discretionary participation features ('DPF'), and associated reinsurance contracts. These changes will impact the pattern in which profit emerges when compared to IFRS 4 and add complexity to valuation processes, data requirements and assumption setting.

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. The presentation of the 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/expenses. IFRS 17 also requires extensive disclosures on the amounts recognised from insurance contracts and the nature and extent of risks arising from them.

The Group's implementation project continued through 2021 with a focus on finalising methodologies and developing the operational capabilities required to implement the standard including data, systems and business processes. The focus for 2022 is on embedding the operational capabilities and determining the transition balance sheet and comparatives required for 2023 reporting.

- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*) (1 January 2023):** The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.
- **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.

- **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 will no longer endorse international accounting standards for use in the UK. UK legislation provides that all IFRSs that had been endorsed by the EU on or before 31 December 2020 became UK-adopted international accounting standards. From 1 January 2021, any new IFRSs or amended IFRSs will require independent endorsement in the UK to be part of the suite of UK-adopted international accounting standards that can be applied by UK companies. On 21 May 2021 the powers to endorse and adopt IFRSs for the UK were delegated by the Secretary of State to the UK Endorsement Board.

The following amendments to standards listed above have been endorsed for use in the UK by the Secretary of State:
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Amendment to IFRS 16 *Leases* COVID-19-Related Rent Concessions; and
- Amendments to IFRS 4 *Insurance Contracts* – Extension of the Temporary Extension for applying IFRS 9 *Financial Instruments*.

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 during the year

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 New agreement with abrdn plc (formerly Standard Life Aberdeen 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 has transferred the economic benefit of this business to abrdn plc. The Group has 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, has been dissolved. 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.

Notes to the consolidated financial statements

Continued

A. Significant accounting policies continued

A6. Significant transactions during the year continued

A6.1 New agreement with abrdn plc (formerly Standard Life Aberdeen plc) continued

The Group received cash consideration for the overall transaction of £115 million, £62 million of which has been deferred as detailed below. On completion of the agreement the Group recognised a net gain on the transaction of £89 million which has been recognised in the consolidated income statement as follows:

	2021 £m
Sale of Wrap SIPP, Onshore and TIP business	(51)
Transfer of marketing services and termination of CSPA[1]	14
Value attributed to acquisition of the brand (note G2.5)	111
Resolution of legacy issues and project costs	36
Gain on completion of abrdn plc transaction	110
Attributable tax charge	(21)
	89

1 Includes the impact of derecognising the CSPA related intangible asset. Further details are included in note G2.5.

The sale of the Wrap SIPP, Onshore Bond and TIP business currently within Standard Life Assurance Limited, will be effected through a Part VII transfer targeted for completion in late 2023. 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 has been 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'). The major classes of assets and liabilities classified as held for sale are as follows:

	2021 £m
Acquired in-force business	54
Investment property	3,309
Financial assets	6,507
Cash and cash equivalents	76
Assets classified as held for sale	9,946
Assets in consolidated funds[1]	1,788
Total assets of the disposal group	11,734
Investment contract liabilities	(11,676)
Other financial liabilities	(4)
Provisions	(2)
Deferred tax liabilities	(10)
Accruals and deferred income	(54)
Liabilities classified as held for sale	(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 2021 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 Ark Life Assurance Company DAC ('Ark Life') to Irish Life Group Limited for gross cash consideration of €230 million (£198 million). Further details of the transaction are provided in note H3.

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.

As at 31 December 2020, following the acquisition of the ReAssure businesses, a separate operating segment was reported which included all of the ReAssure businesses. During the year, the Group has again reassessed its operating segments to reflect that the management and reporting of the ReAssure businesses have been aligned with that of the other Group businesses. Consequently, the results previously reported within the ReAssure segment are all now reported within the UK Heritage and UK Open segments and within Unallocated Group. The Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services, as set out in note B1.1.

For management purposes, the Group is organised into business units based on their products and services. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. No such aggregation has been required in the current year.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs') distributed through the Group's Strategic Partnership with 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 during the year (see note H3), was allocated to the Heritage operating segment.

The Wrap SIPP, Onshore Bond and TIP businesses that have been classified as a disposal group held for sale as at 31 December 2021 (see note A6.1) are allocated to the Open operating segment.

Segmental measure of performance: Operating Profit
The Group uses a non-GAAP measure of performance, being operating profit, to evaluate segment performance. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movement in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Group's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Group's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Notes to the consolidated financial statements

Continued

B. Earnings performance continued

B1. Segmental analysis continued

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 disclosed separately by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the performance of the Group's operating segments on an ongoing basis. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the Solvency II capital position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

The Group therefore considers that operating profit provides a 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.

Restatement of prior period information

As noted above, during the year the Group reassessed its operating segments to reflect the way the ReAssure businesses are now managed and reported. Consequently, the results previously reported within the ReAssure segment are now reported within the UK Heritage and UK Open segments and within Unallocated Group. UK Heritage and UK Open operating profit for the year ended 30 December 2020 has been increased by £153 million to £431 million and £301 million to £773 million respectively and Unallocated Group has decreased by £10 million to an operating loss of £55 million. UK Heritage segmental revenue has been increased by £251 million to £939 million and UK Open segmental revenue has been decreased by £69 million to £2,529 million.

B1.1 Segmental result

	Notes	2021 £m	2020 restated[1] £m
Operating profit			
UK Heritage		537	431
UK Open		701	773
Europe		87	44
Management Services		(24)	6
Unallocated Group		(71)	(55)
Total segmental operating profit		1,230	1,199
Investment return variances and economic assumption changes on long-term business and owners' funds	B2.2	(1,125)	101
Amortisation and impairment of acquired in-force business		(572)	(464)
Amortisation and impairment of other intangibles and goodwill	G2	(67)	(18)
Other non-operating items		(65)	281
Finance costs on borrowing attributable to owners		(217)	(191)
(Loss)/profit before the tax attributable to owners of the parent		(816)	908
Profit before tax attributable to non-controlling interests		128	36
(Loss)/profit before the tax attributable to owners		(688)	944

1 See note B1 for details of the restatement

Other non-operating items in respect of 2021 include:
- a 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 H3 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;
- £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.

Notes to the consolidated financial statements

Continued

B. Earnings performance continued
B1. Segmental analysis continued
B1.1 Segmental result continued
Other non-operating items in respect of 2020 include:
- a gain on acquisition of £372 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of ReAssure Group plc (see note H2.1 for further details);
- a gain of £85 million arising on completion of the Part VII transfer of the mature savings liabilities and associated assets from the L&G Group (see note H2.2 for further details);
- a net £43 million of additional costs associated with the delivery of the Group Target Operating Model for IT and Operations, comprising a £74 million increase in expenses recognised within liabilities under insurance contracts and partly offset by a £31 million release within the Transition and Transformation restructuring provision;
- costs of £37 million associated with the acquisition of ReAssure Group plc, and £19 million incurred under the subsequent integration programme;
- costs of £20 million associated with the ongoing integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019, incurred since the Group's acquisition of ReAssure Group plc in July 2020;
- costs of £16 million associated with the transfer and integration of the L&G mature savings business;
- £34 million of other corporate project costs; and
- net other one-off items totalling a cost of £7 million.

Further details of the investment return variances and economic assumption changes on long-term business, and the variance on owners' funds are included in note B2.

B1.2 Segmental revenue

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

2020 restated[1]	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	765	2,726	1,215	–	–	4,706
Less: premiums ceded to reinsurers	(267)	(500)	(29)	–	–	(796)
Net premiums written	498	2,226	1,186	–	–	3,910
Fees and commissions	441	303	50	–	–	794
Income from other segments	–	–	–	737	(737)	–
Total segmental revenue	939	2,529	1,236	737	(737)	4,704

1 See note B1 for details of the restatement

Of the revenue from external customers presented in the table above, £5,448 million (2020: £3,818 million) is attributable to customers in the United Kingdom ('UK') and £929 million (2020: £886 million) to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £5,245 million (2020: £7,042 million) located in the UK and £410 million (2020: £433 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 operating profit measure that incorporates an expected return on investments supporting its long-term business. The accounting policy adopted in the calculation of operating profit is detailed in note B1. The methodology for the determination of the expected investment return is explained below together with an analysis of investment return variances and economic assumption changes recognised outside of operating profit.

B2.1 Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15-year duration plus 10bps at the start of the year. A risk premium of 349bps is added to the risk-free yield for equities (2020: 349bps), 249bps for properties (2020: 249bps), 55bps for corporate bonds (2020: 55bps) and 15bps for gilts (2020: 15bps). The reduction in the risk-free rate reflected the lower expected return for these assets at the beginning of the period due to the lower fixed interest yields experienced in 2020.

The principal assumptions underlying the calculation of the long-term investment return are:

	2021 %	2020 %
Equities	**4.1**	4.7
Properties	**3.1**	3.7
Gilts	**0.8**	1.4
Corporate bonds	**1.2**	1.8

B2.2 Investment return variances and economic assumption changes recognised outside of operating profit

Operating profit for life assurance business is based on expected investment returns on financial investments backing owners' and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, for example mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profit funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business, the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees. 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.

Notes to the consolidated financial statements

Continued

B. Earnings performance continued

B2. Investment return variances and economic assumption changes continued

B2.2 Investment return variances and economic assumption changes recognised outside of operating profit continued

The investment return variances and economic assumption changes excluded from operating profit are as follows:

	2021 £m	2020 £m
Investment return variances and economic assumption changes on long-term business and owners' funds	(1,125)	101

The net adverse investment return variances and economic assumption changes on long-term business and owners' funds of £1,125 million in 2021 (2020: positive £101 million) primarily reflect IFRS losses arising on life company hedging positions.

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 is not. Such future profits 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.

As a result of improving equity markets, rising yields and increasing inflation in the year, losses have been experienced on hedging positions held by the life companies. Continued strategic asset allocation initiatives undertaken by the Group, including investment in higher yielding assets and credit management actions provided a partial offset to the adverse variances experienced.

In 2020, declines in certain equity markets and falling yields gave rise to net gains on hedging positions, partially offset by adverse variances relating to movements in credit spreads and credit downgrades. The prior year result also included gains arising on derivative instruments entered into on announcement of the ReAssure acquisition to protect the Group's exposure to equity risk in the period prior to completion.

B3. Earnings per share

The Group calculates its basic earnings per share based on the present shares in issue using the earnings attributable to ordinary equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated based on the potential future shares in issue assuming the conversion of all potentially dilutive ordinary shares. The weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive share awards granted to employees.

The basic and diluted earnings per share calculations are also presented based on the Group's operating profit net of financing costs. Operating profit is a non-GAAP performance measure that is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

The result attributable to ordinary equity holders of the parent for the purposes of determining earnings per share has been calculated as set out below.

2021	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	1,230	(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)

2020	Operating profit £m	Financing costs £m	Operating earnings net of financing costs £m	Other non-operating items £m	Total £m
Profit/(loss) before the tax attributable to owners	1,199	(191)	1,008	(64)	944
Tax (charge)/credit attributable to owners	(199)	48	(151)	41	(110)
Profit/(loss) for the year attributable to owners	1,000	(143)	857	(23)	834
Coupon paid on Tier 1 notes, net of tax relief	–	(23)	(23)	–	(23)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(36)	(36)
Profit/(loss) for the year attributable to ordinary equity holders of the parent	1,000	(166)	834	(59)	775

The weighted average number of ordinary shares outstanding during the period is calculated as follows:

	2021 Number million	2020 Number million
Issued ordinary shares at beginning of the year	**999**	722
Effect of ordinary shares issued	**–**	123
Own shares held by the employee benefit trust	**(1)**	(1)
Weighted average number of ordinary shares	**998**	844

The diluted weighted average number of ordinary shares outstanding during the period is 1,001 million (2020: 846 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis by 2,702,934 shares for the year ended 31 December 2021 (2020: 2,316,109 shares). As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect in the calculation of basic earnings per share for the year ended 31 December 2021.

Earnings per share disclosures are as follows:

	2021 pence	2020 pence
Basic earnings per share	**(86.4)**	91.8
Diluted earnings per share	**(86.4)**	91.5
Basic operating earnings net of financing costs per share	**79.2**	98.8
Diluted operating earnings net of financing costs per share	**79.0**	98.5

Notes to the consolidated financial statements

Continued

B. Earnings performance continued

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.

	2021 £m	2020 £m
Dividends declared and paid in the year	**482**	403

On 5 March 2021, the Board recommended a final dividend of 24.1p per share in respect of the year ended 31 December 2020. The dividend was approved at the Group's Annual General Meeting, which was held on 14 May 2021. The dividend amounted to £241 million and was paid on 18 May 2021.

On 10 August 2021, the Board declared an interim dividend of 24.1p per share for the half year ended 30 June 2021. The dividend amounted to £241 million and was paid on 3 September 2021.

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.

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

2020 restated[1]	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	429	293	58	780
Initial fees deferred during the year	–	–	(8)	(8)
Revenue from investment contracts without DPF	429	293	50	772
Other revenue from contracts with customers	12	10	–	22
Fees and commissions	441	303	50	794

1 The comparative information for fee income from investments without DPF has been restated. The ReAssure fee income of £145 million has been included within the UK Heritage fee income total of £441 million. For further details of the restatement see note B1.

Remaining performance obligations

The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Group has the right to consideration from customers in amounts that correspond with the performance completed to date. Specifically management charges become due over time in proportion to the Group's provision of investment management services.

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.

	2021 £m	2020 £m
Investment income		
Interest income on loans and deposits at amortised cost	1	8
Interest income on financial assets designated at FVTPL on initial recognition	2,647	2,313
Dividend income	4,384	3,525
Rental income	365	325
Net interest expense on Group defined benefit pension scheme (liability)/asset	(37)	(29)
	7,360	6,142
Fair value gains/(losses)		
Financial assets and financial liabilities at FVTPL:		
Designated upon initial recognition	12,354	8,021
Held for trading – derivatives	(2,908)	2,824
Investment property	1,195	(52)
	10,641	10,793
Net investment income	**18,001**	**16,935**

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.

	2021 £m	2020 £m
Employee costs	531	433
Outsourcer expenses	209	175
Movement in provision for transition and transformation programme (see note G7)	–	(31)
Professional fees	321	230
Commission expenses	178	152
Office and IT costs	150	124
Investment management expenses and transaction costs	528	437
Direct costs of life companies	–	4
Direct costs of collective investment schemes	28	25
Depreciation	18	28
Pension service costs	–	2
Pension administrative expenses	6	5
Advertising and sponsorship	58	58
Stamp duty payable on acquisition of ReAssure businesses	–	16
Other	59	45
	2,086	1,703
Acquisition costs deferred during the year	(38)	(34)
Amortisation of deferred acquisition costs	8	5
Total administrative expenses	**2,056**	**1,674**

Employee costs comprise:

	2021 £m	2020 £m
Wages and salaries	483	390
Social security contributions	48	43
	531	433

	2021 Number	2020 Number
Average number of persons employed	7,885	5,752

C4. Auditor's remuneration

During the year the Group obtained the following services from its auditor at costs as detailed in the table below.

	2021 £m	2020 £m
Audit of the consolidated financial statements	1.8	2.1
Audit of the Company's subsidiaries	9.8	9.6
	11.6	11.7
Audit-related assurance services	2.3	2.3
Reporting accountant assurance services	–	0.1
Total fee for assurance services	13.9	14.1
Other non-audit services	–	0.4
Total fees for other services	–	0.4
Total auditor's remuneration	13.9	14.5

No services were provided by the Company's auditors to the Group's pension schemes in either 2021 or 2020.

Audit of the consolidated financial statements in 2020 included amounts in respect of reporting to the auditor of abrdn plc given their status as a significant investor. The 2020 balance also includes amounts in respect of the audit of the acquisition balance sheet of the acquired ReAssure Group businesses.

Audit related assurance services includes fees payable for services where the reporting is required by law or regulation to be provided by the auditor, such as reporting on regulatory returns. It also includes fees payable in respect of reviews of interim financial information and services where the work is integrated with the audit itself.

Reporting accountant services relate to assurance reporting on historical information included within investment circulars. In 2020, this included public reporting associated with the acquisition of ReAssure Group.

There were no other non-audit services provided during the year (2020: £0.4 million). The 2020 fees related to services provided to ReAssure Group where the engagement occurred prior to completion of the acquisition and which were terminated within the three-month grace period.

Further information on auditor's remuneration and the assessment of the independence of the external auditor is set out in the Audit Committee report on pages 96 to 100.

Notes to the consolidated financial statements

Continued

C. Other income statement notes continued

C5. Finance costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

	2021 £m	2020 £m
Interest expense		
On financial liabilities at amortised cost	239	230
On leases	3	4
	242	234
Attributable to:		
• policyholders	2	10
• owners	240	224
	242	234

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

	2021 £m	2020 £m
Current tax:		
UK corporation tax	(9)	306
Overseas tax	114	59
	105	365
Adjustment in respect of prior years	(66)	(4)
Total current tax charge	39	361
Deferred tax:		
Origination and reversal of temporary differences	120	111
Change in the rate of UK corporation tax	147	(37)
Adjustments in respect of prior years	(27)	1
Total deferred tax charge	240	75
Total tax charge	279	436
Attributable to:		
• policyholders	258	326
• owners	21	110
Total tax charge	279	436

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £258 million (2020: £326 million).

The current tax prior year adjustment relates principally to the utilisation of excess management expenses transferred with the Legal & General business transfer in 2020. The benefit of the excess management expenses was not recognised in 2020 as discussions were ongoing with HMRC as to the appropriate tax treatment of the business transfer and associated transactions. Discussions with HMRC concluded late in 2021 and in accordance with IAS 12 and IFRIC 23 it is now considered appropriate to recognise the benefit of the excess management expenses. The expenses were utilised in full in the 2020 period reducing the current tax charge in 2020 by £57 million and increasing the utilisation of the capital losses in the company generating a further reduction to the current tax charge of £9 million, resulting in a prior year tax credit of £66 million in total. This comprises a policyholder tax credit of £79 million and a shareholder tax charge of £13 million.

C6.2 Tax charged to other comprehensive Income

	2021 £m	2020 £m
Current tax charge	1	12
Deferred tax charge on defined benefit schemes	137	25
	138	37

Notes to the consolidated financial statements

Continued

C. Other income statement notes continued

C6. Tax charge continued

C6.3 Tax credited to equity

	2021 £m	2020 £m
Current tax credit on Tier 1 Notes	(6)	(6)
Deferred tax credit on share schemes	(1)	–
	(7)	(6)

C6.4 Reconciliation of tax charge

	2021 £m	2020 £m
(Loss)/profit for the year before tax	(430)	1,270
Policyholder tax charge	(258)	(326)
(Loss)/profit before the tax attributable to owners	(688)	944
Tax (credit)/charge at standard UK rate of 19%[1]	(131)	179
Non-taxable income, gains and losses[2]	(10)	(78)
Disallowable expenses[3]	19	9
Prior year tax credit for shareholders[4]	(7)	(17)
Movement on acquired in-force amortisation at less than 19%	34	77
Profits taxed at rates other than 19%[5]	(22)	(10)
Recognition of previously unrecognised deferred tax assets[6]	(13)	(25)
Deferred tax rate change[7]	147	(37)
Current year losses not valued	1	9
Other	3	3
Owners' tax charge	21	110
Policyholder tax charge	258	326
Total tax charge for the year	279	436

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 balance primarily relates to the release of provisions no longer required following the resolution of legacy matters with abrdn plc and non-taxable dividends.
3 Disallowable expense deductions are primarily in relation to goodwill impaired in the year and the loss on disposal of Ark Life Assurance Company DAC.
4 The 2021 prior year tax credit recognised in the current period predominately relates to the recognition of a £(17) million deferred tax credit on fair value adjustments on external loans, a £(5) million current tax credit arising on the release of an overprovision for tax on shareholder profits within Standard Life Assurance Limited and a £13 million charge arising from the shareholder tax impact of the utilisation of excess management expenses transferred in 2020 with the Legal and General business.
5 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.
6 The 2021 tax credit predominately represents the recognition of tax credits of £(9) million in relation to tax losses, £(2) million in relation to intangible assets within Standard Life International DAC and £(2) million in relation to capital losses within the ReAssure group.
7 The 2021 deferred tax rate change relates to the impact of the new 25% corporation tax rate effective from 1 April 2023.

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.

	2021 £m	2020 £m
Issued and fully paid:		
999.5 million ordinary shares of £0.10 each (2020: 999.2 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:

2021	Number	£
Shares in issue at 1 January	999,232,144	99,923,214
Ordinary shares issued in the year	303,914	30,391
Shares in issue at 31 December	999,536,058	99,953,605

During the year, 303,914 shares were issued at a premium £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

2020	Number	£
Shares in issue at 1 January	721,514,944	72,151,494
Ordinary shares issued to Swiss Re and MS&AD	277,277,138	27,727,714
Other ordinary shares issued in the year	440,062	44,006
Shares in issue at 31 December	999,232,144	99,923,214

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for total consideration of £3.1 billion. The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares ('the Acquisition Shares') to Swiss Re Group on 23 July 2020.

Pursuant to an agreement between Swiss Re Group and MS&AD Insurance Group Holdings ('MS&AD'), MS&AD transferred its entire shareholding in ReAssure Group plc to the Swiss Re Group prior to 22 July 2020 in consideration for the transfer of 144,877,304 of the Acquisition Shares at completion. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The Group has applied the relief in section 612 of the Companies Act 2006 to present the difference between the consideration received and the nominal value of the shares issued of £1,819 million in a merger relief reserve as opposed to in share premium. A merger relief reserve is required to be used as a result of the Group having issued equity shares as part consideration for the shares of ReAssure Group plc and securing at least a 90% holding in that entity.

During 2020, 440,062 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

Notes to the consolidated financial statements

Continued

D. Equity continued

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.

	2021 £m	2020 £m
At 1 January	6	7
Shares acquired by the EBT	16	7
Shares awarded to employees by the EBT	(10)	(8)
At 31 December	12	6

During the year 1,490,492 (2020: 1,230,763) shares were awarded to employees by the EBT and 2,423,407 (2020: 1,087,410) shares were purchased. The number of shares held by the EBT at 31 December 2021 was 1,885,918 (2020: 953,003).

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.

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

2020	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2020	5	(7)	(2)
Other comprehensive income for the year	–	50	50
At 31 December 2020	5	43	48

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.

In April 2020, the Group terminated the derivative instruments which had previously been designated as hedging instruments in its cash flow hedging relationships. Hedge accounting was discontinued from the point of termination of the derivative instruments. The remaining cash flow hedging reserve will continue to be reclassified to profit or loss over the remaining term of the hedged items.

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.

	2021 £m	2020 £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 (2020: £29 million).

At the issue date, the Tier 1 Notes were unsecured and subordinated obligations of Old PGH. On 12 December 2018, the Company was substituted in place of Old PGH as issuer.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the consolidated financial statements. If an interest payment is not made, it is cancelled and it shall not accumulate or be payable at any time thereafter.

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.

Notes to the consolidated financial statements

Continued

D. Equity continued

D5. Non-controlling interests

Non-controlling interests are stated at the share of net assets attributed to the non-controlling interest holder at the time of acquisition, adjusted for the relevant share of subsequent changes in equity.

	SLPET £m
At 1 January 2021	341
Profit for the year	128
Dividends paid	(9)
At 31 December 2021	460

	SLPET £m
At 1 January 2020	314
Profit for the year	36
Dividends paid	(9)
At 31 December 2020	341

The non-controlling interests of £460 million (2020: £341 million) reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the proportionate value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 31 December 2021, the Group held 55.2% of the issued share capital of SLPET (2020: 55.2%).

The Group's interest in SLPET is held in the with-profit and unit-linked funds of the Group's life companies. Therefore, the shareholder exposure to the results of SLPET is limited to the impact of those results on the shareholder share of distributed profits of the relevant fund.

Summary financial information showing the interest that non-controlling interests have in the Group's activities and cash flows is shown below:

SLPET	2021 £m	2020 £m
Statement of financial position:		
Financial assets	452	335
Other assets	19	9
Total assets	471	344
Total liabilities	11	3
Income statement:		
Net income	134	41
Profit after tax	128	36
Comprehensive income	128	36
Cash flows:		
Net increase/(decrease) in cash equivalents	10	(19)

E. Financial assets & liabilities
E1. Fair values

Financial assets
Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and only include assets where a security has not been issued. These loans and deposits are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are largely classified as held for trading. They are recognised initially at fair value and subsequently are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated and effective as a hedging instrument. For such instruments, the timing of the recognition of any gain or loss that arises on remeasurement to fair value in profit or loss depends on the nature of the hedge relationship.

Equities, debt securities and collective investment schemes are designated at FVTPL and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at FVTPL because this is reflective of the manner in which the financial assets are managed and reduces a measurement inconsistency that would otherwise arise with regard to the insurance liabilities that the assets are backing.

Reinsurers share of investment contracts liabilities without DPF are valued, and associated gains and losses presented, on a basis consistent with investment contracts liabilities without DPF as detailed under the 'Financial liabilities' section below.

Impairment of financial assets
The Group assesses at each period end whether a financial asset or group of financial assets held at amortised cost are impaired. The Group first assesses whether objective evidence of impairment exists. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in the collective assessment of impairment.

Fair value estimation
The fair values of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the applicable bid price on the period end date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E1. Fair values continued

Associates

Investments in associates that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates which are of a strategic nature.

Derecognition of financial assets

A financial asset (or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at FVTPL for which all transaction costs are expensed).

Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts without DPF and other liabilities designated at FVTPL) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at FVTPL and where doing so results in more meaningful information because either:

- it eliminates or significantly reduces accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated and managed on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investments is provided internally on that basis to the Group's key management personnel.

Investment contracts without DPF

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts and accounted for as financial liabilities.

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the statement of consolidated financial position as an adjustment to the liability to the policyholder.

The valuation of liabilities on unit-linked contracts 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, 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.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E1. Fair values continued

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 2021:

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 H4)[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	Fair value £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.

2020	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	6,880	6,429	6,880
Designated upon initial recognition:			
Equities[1]	82,634	–	82,634
Investment in associate (see note H4)[1]	400	–	400
Debt securities	109,455	94,070	109,455
Collective investment schemes[1]	89,248	–	89,248
Reinsurers' share of investment contract liabilities[1]	9,559	–	9,559
Financial assets measured at amortised cost:			
Loans and deposits	647	60	647
Total financial assets	298,823		298,823

	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	1,001	727	1,001
Designated upon initial recognition:			
Borrowings	84	84	84
Net asset value attributable to unitholders[1]	3,791	–	3,791
Investment contract liabilities[1]	165,106	–	165,106
Financial liabilities measured at amortised cost:			
Borrowings	4,483	4,161	5,016
Deposits received from reinsurers	4,080	3,381	4,080
Obligations for repayment of collateral received	5,205	–	5,205
Total financial liabilities	183,750		184,283

1 These assets and liabilities have no specified settlement date.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E1. Fair values continued

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.

	2021 £m	2020 £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	475	647
Cash and cash equivalents[1]	9,112	10,998
Accrued income	282	251
Other receivables[2]	1,697	1,541
All other financial assets that are measured at fair value through profit or loss[3]	292,717	298,176

1 Cash and cash equivalents excludes assets classified as held for sale of £76 million (2020: £nil).
2 Other receivables excludes deferred acquisition costs.
3 The change in fair value during 2021 of all other financial assets that are measured at fair value through profit or loss is a £5,881 million gain (2020: £11,087 million gain). The balance excludes £6,507 million (2020: £nil) 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:

2021 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 (see note A6.1) £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

2020 Carrying value	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated[1] £m	Unit-linked £m	Total £m
Loans and deposits	–	6	195	–	–	368	78	647
Cash and cash equivalents	30	1,728	7,049	173	–	10	2,008	10,998
Accrued income	–	–	–	–	–	251	–	251
Other receivables	–	–	–	–	–	1,541	–	1,541
	30	1,734	7,244	173	–	2,170	2,086	13,437

1 The Group has assessed its non-rated assets as having a low credit risk.

E2. Fair value hierarchy

E2.1 Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments
The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicate higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments
Financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs, are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified 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.

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.

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
The tables below separately identify financial instruments carried at fair value from those measured on another basis but for which fair value is disclosed.

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 unit-holders	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

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	320	6,362	198	6,880
Financial assets designated at FVTPL upon initial recognition:				
Equities	81,024	47	1,563	82,634
Investment in associate	400	–	–	400
Debt securities	74,043	25,248	10,164	109,455
Collective investment schemes	86,677	2,170	401	89,248
Reinsurers' share of investment contract liabilities	8,962	597	–	9,559
	251,106	28,062	12,128	291,296
Total financial assets measured at fair value	251,426	34,424	12,326	298,176
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	632	15	647
	251,426	35,056	12,341	298,823

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	119	720	162	1,001
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	84	84
Net asset value attributable to unitholders	3,791	–	–	3,791
Investment contract liabilities	–	165,106	–	165,106
	3,791	165,106	84	168,981
Total financial liabilities measured at fair value	3,910	165,826	246	169,982
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	4,812	204	5,016
Deposits received from reinsurers	–	3,983	97	4,080
Obligations for repayment of collateral received	–	5,205	–	5,205
Total financial liabilities for which fair values are disclosed	–	14,000	301	14,301
	3,910	179,826	547	184,283

E2.3 Level 3 financial instrument sensitivities
Level 3 investments in equities (including private equity and unlisted property investment vehicles) and collective investment schemes (including hedge funds) are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E2. Fair value hierarchy continued

E2.3 Level 3 financial instrument sensitivities continued

E2.3.1 Debt securities

Analysis of Level 3 debt securities	2021 £m	2020 £m
Unquoted corporate bonds:		
Local authority loans	917	646
Private placements	3,120	2,297
Loans guaranteed by export credit agencies	159	54
Infrastructure loans	1,491	1,564
Equity release mortgages	4,214	3,484
Commercial real estate loans	1,317	1,075
Income strips	886	692
Bridging loans to private equity funds	339	320
Corporate transactions	–	29
Other	9	3
Total Level 3 debt securities	12,452	10,164
Less amounts classified as held for sale	(892)	–
Total Level 3 debt securities excluding amounts classified as held for sale	11,560	10,164

The Group holds unquoted corporate bonds comprising investments in local authority loans, loans guaranteed by export credit agencies, private placements and infrastructure loans with a total value of £5,687 million (2020: £4,561 million). These unquoted corporate bonds are secured on various assets and are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 65bps would decrease the value by £468 million (an increase of 35bps in 2020: £246 million) and a decrease of 65bps would increase the value by £513 million (a decrease of 35bps in 2020: £190 million).

During 2020, as a result of the effects of the COVID-19 pandemic, the credit ratings for a small number of unquoted corporate bonds were downgraded and the impacts of this were reflected in the fair values at 31 December 2021 and 31 December 2020. There remains some ongoing uncertainty in respect of the credit ratings for unquoted corporate bonds and commercial real estate loans. Internal review processes are in place to closely monitor credit ratings and additional reviews are carried out as required, for example when triggered by credit performance or market factors. The financial impact of reasonable movements in spreads has been quantified above.

Included within debt securities are investments in equity release mortgages with a value of £4,214 million (2020: £3,484 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables, entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption.

Cash flows are discounted using a risk-free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of Equity Release Mortgage ('ERM') loans.

Considering the fair valuation uses certain inputs that are not market observable, the fair value measurement of these loans has been categorised as a Level 3 fair value. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin, age and loan to value ratio of each portfolio. Experience analysis is used to inform this assumption, however where experience is limited for more recently originated loans, significant expert judgement is required.

The significant sensitivities arise from movements in the yield curve, inflation rate, house prices, mortality and voluntary redemption rate. An increase of 100bps in the yield curve would decrease the value by £443 million (2020: £351 million) and a decrease of 100bps would increase the value by £512 million (2020: £397 million). An increase of 1% in the inflation rate would increase the value by £26 million (2020: £29 million) and a decrease of 1% would decrease the value by £43 million (2020: £48 million).

E2.3.1 Debt securities continued

An increase of 10% in house prices would increase the value by £13 million (2020: £16 million) and a decrease of 10% would decrease the value by £23 million (2020: £26 million). An increase of 5% in mortality would decrease the value by £10 million (2020: £11 million) and a decrease of 5% in mortality would increase the value by £9 million (2020: £7 million). An increase of 15% in the voluntary redemption rate would decrease the value by £22 million (2020: £24 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £23 million (2020: £22 million).

The Group also holds investments in commercial real estate loans with a value of £1,317 million (2020: £1,075 million). The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 65bps in the discount rate would decrease the value by £24 million (an increase of 35bps in 2020: £15 million) and a decrease of 65bps would increase the value by £24 million (a decrease of 35bps in 2020: £16 million).

Also included within debt securities are income strips with a value of £886 million (2020: £692 million). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £94 million (2020: £68 million) and a decrease of 35bps would increase the value by £121 million (2020: £86 million).

E2.3.2 Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £70 million (2020: £84 million), measured using an internally developed model. The valuation is sensitive to the key assumption of the discount rate. An increase in the discount rate of 1% would decrease the value by £1 million (2020: £1 million) and a decrease of 1% would increase the value by £1 million (2020: £1 million).

E2.3.3 Longevity swap contracts

Included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £230 million (2020: £155 million) and £49 million (2020: £85 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £28 million (2020: £15 million) and a decrease of 100bps would increase the net value by £35 million (2020: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £8 million (2020: £11 million) and a decrease of 1% would decrease the value by £8 million (2020: £12 million).

E2.3.4 Derivatives

Included within derivative assets are forward local authority loans, forward private placements and forward infrastructure loans with a value of £7 million (2020: £43 million). These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 65bps would decrease the value by £25 million (an increase of 35bps in 2020: £19 million) and a decrease of 65bps would increase the value by £27 million (a decrease of 35bps in 2020: £20 million).

Also included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £67 million (2020: £75 million), under which a share of the disposal proceeds arising on a portfolio of property reversions is payable to a third party (see note E.3.3 for further details). The carrying value of the financial liability is the discounted present value of the relevant share of all future property sales that will be passed to the counterparty as part of the swap arrangement. The valuation is sensitive to the discount rate applied. An increase of 1% in the discount rate would decrease the value by £2 million (2020: £3 million) and a decrease of 1% in the discount rate would increase the value by £2 million (2020: £3 million).

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E2. Fair value hierarchy continued

E2.4 Transfers of financial instruments between Level 1 and Level 2

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

2020	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Debt securities	492	10,174
Collective investment schemes	1	–

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 the current period.

In the prior period, there was an overall net movement of financial assets from Level 2 to Level 1 and this movement was the result of an exercise to harmonise the approach to determining the fair value hierarchy for Level 1 and Level 2 debt securities across the Group. The methodology was updated to consistently use spread data and trade volume data to determine the activeness of the market. This resulted in assets being moved from Level 2 to Level 1, and from Level 1 to Level 2.

E2.5 Movement in Level 3 financial instruments measured at fair value

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 of assets 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 £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)

2020	At 1 January 2020 £m	Net gains/(losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	175	23	–	–	–	–	198	36
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,596	113	213	(361)	2	–	1,563	44
Debt securities	6,026	432	6,301	(2,635)	63	(23)	10,164	471
Collective investment schemes	646	(161)	1	(85)	–	–	401	(100)
	8,268	384	6,515	(3,081)	65	(23)	12,128	415
Total financial assets	8,443	407	6,515	(3,081)	65	(23)	12,326	451

2020	At 1 January 2020 £m	Net gains in income statement	Effect of acquisitions/ purchases £m	Sales/Repay ments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2020 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	74	17	78	(7)	–	–	162	13
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	99	4	–	(19)	–	–	84	4
Total financial liabilities	173	21	78	(26)	–	–	246	17

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 2021 £m	Liabilities 2021 £m	Assets 2020 £m	Liabilities 2020 £m
Forward currency	180	58	286	134
Credit default swaps	63	39	108	13
Contracts for difference	8	2	7	4
Interest rate swaps	1,509	506	2,754	98
Total return bond swaps	3	–	52	–
Swaptions	1,722	11	2,643	27
Inflation swaps	232	98	59	132
Equity options	408	254	543	322
Stock index futures	41	122	53	90
Fixed income futures	46	33	63	20
Retrocession contracts	–	–	–	1
Longevity swap contracts	230	49	155	85
Currency futures	7	1	1	–
Cross-currency swaps	122	12	156	–
Equity Release Income Plan total return swap	–	67	–	75
	4,571	1,252	6,880	1,001
Less amounts classified as held for sale (see note A6.1)	(4)	(4)	–	–
	4,567	1,248	6,880	1,001

E3.2 Corporate transactions

The Group has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Group's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. Derivative assets of £230 million and derivative liabilities of £49 million have been recognised as at 31 December 2021 (2020: £155 million and £85 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.

E4. Collateral arrangements

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty, 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 2021 (2020: 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		
2021 **Financial assets**	Gross and net amounts of recognised financial assets £m	Financial instruments and cash collateral received £m	Derivative liabilities £m	Net amount £m
OTC derivatives	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

		Related amounts not offset		
Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Financial instruments and cash collateral pledged £m	Derivative assets £m	Net amount £m
OTC derivatives	1,096	319	487	290
Exchange traded derivatives	156	24	6	126
Total	1,252	343	493	416

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E4. Collateral arrangements continued

E4.1 Financial instrument collateral arrangements continued

2020 Financial assets	Gross and net amounts of recognised financial assets £m	Related amounts not offset Financial instruments and cash collateral received £m	Related amounts not offset Derivative liabilities £m	Net amount £m
OTC derivatives	6,523	5,389	219	915
Exchange traded derivatives	357	9	17	331
Stock lending	2,435	2,435	–	–
Total	9,315	7,833	236	1,246

Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Related amounts not offset Financial instruments and cash collateral pledged £m	Related amounts not offset Derivative assets £m	Net amount £m
OTC derivatives	886	328	219	339
Exchange traded derivatives	115	31	17	67
Total	1,001	359	236	406

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 £945 million (2020: £885 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2021 are set out below.

	OTC derivatives 2021 £m	OTC derivatives 2020 £m
Financial assets	**3,442**	5,205
Financial liabilities	**(3,442)**	(5,205)

The maximum exposure to credit risk in respect of OTC derivative assets is £4,394 million (2020: £6,523 million) of which credit risk of £4,087 million (2020: £5,608 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 £177 million (2020: £357 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 2021 in respect of OTC derivative liabilities of £1,096 million (2020: £886 million) amounted to £942 million (2020: £1,216 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 £1,749 million (2020: £2,686 million).

The maximum exposure to credit risk in respect of stock lending transactions is £1,587 million (2020: £2,435 million) of which credit risk of £1,587 million (2020: £2,435 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.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued

E5. Borrowings continued

E5.1 Analysis of borrowings

	Carrying value		Fair value	
	2021 £m	2020 £m	2021 £m	2020 £m
£200 million multi-currency revolving credit facility (note a)	17	–	17	–
Property reversions loan (note b)	70	84	70	84
Total policyholder borrowings	87	84	87	84
£200 million 7.25% unsecured subordinated loan (note c)	–	200	–	204
£300 million senior unsecured bond (note d)	–	122	–	125
£428 million Tier 2 subordinated notes (note e)	427	426	498	517
£450 million Tier 3 subordinated notes (note f)	450	449	457	470
US $500 million Tier 2 bonds (note g)	368	364	408	416
€500 million Tier 2 bonds (note h)	416	442	490	516
US $750 million Contingent Convertible Tier 1 notes (note i)	551	545	581	585
£500 million Tier 2 notes (note j)	485	484	593	622
US $500 million Fixed Rate Reset Tier 2 notes (note k)	368	364	389	395
£500 million 5.867% Tier 2 subordinated notes (note l)	550	556	598	620
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note m)	266	272	269	280
£250 million 4.016% Tier 3 subordinated notes (note n)	257	259	264	266
Total shareholder borrowings	4,138	4,483	4,547	5,016
Total borrowings	4,225	4,567	4,634	5,100
Amount due for settlement after 12 months	3,758	4,245		

a. Standard Life Private Equity Trust has in place a £200 million syndicated multi-currency revolving credit facility of which £17 million (2020: £nil) had been drawn down as at 31 December 2021. The facility expires on 6 December 2024. 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 2021, repayments totalling £18 million were made (2020: £19 million). Note G4 contains details of the assets that support this loan.

c. Scottish Mutual Assurance Limited issued £200 million 7.25% undated, unsecured subordinated loan notes on 23 July 2001 ('PLL subordinated debt'). With effect from 1 January 2009, following a Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. On 25 March 2021, PLL redeemed this subordinated debt in full. The notes were redeemed at their principal amount together with interest accrued to the repayment date.

d. On 7 July 2014, the Group's financing subsidiary, PGH Capital plc ('PGHC'), issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('£300 million senior bond'). On 20 March 2017, Old PGH (the Group's ultimate parent company up to December 2018) was substituted in place of PGHC as issuer of the £300 million senior bond. On 5 May 2017, Old PGH completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount and accrued interest on the purchased bonds was settled on this date. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million senior bond. On 7 July 2021, the senior bond matured and the £122 million outstanding balance was repaid in full along with the final coupon of £7 million.

e. On 23 January 2015, PGHC issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. Fees associated with these notes of £3 million were deferred and are being amortised over the life of the notes in the statement of consolidated financial position. Upon exchange £32 million of these notes were held by Group companies. On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes and then on 12 December 2018 the Company was substituted in place of Old PGH as issuer.

f. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes. On 5 May 2017, Old PGH completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017. The Group received a premium of £2 million in excess of the principal amount. Fees associated with these notes of £5 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

g. On 6 July 2017, Old PGH issued US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%. Fees associated with these notes of £2 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

h. On 24 September 2018, Old PGH issued €500 million Tier 2 notes due 2029 with a coupon of 4.375%. Fees associated with these notes of £7 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

i. On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes (the 'Contingent Convertible Tier 1 Notes') which are unsecured and subordinated. The Contingent Convertible Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company. The Contingent Convertible Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.625% per annum up to the 'First Reset Date' of 26 April 2025. Thereafter the fixed rate of interest will be reset on the First Reset Date and on each fifth anniversary of this date by reference to the sum of the yield of the Constant Maturity Treasury ('CMT') rate (based on the prevailing five year US Treasury yield) plus a margin of 4.035%, being the initial credit spread used in pricing the notes. Interest is payable on the Contingent Convertible Tier 1 Notes semi-annually in arrears on 26 April and 26 October. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

   The terms of the Contingent Convertible Tier 1 Notes contain a contingent settlement provision which is linked to the occurrence of a 'Capital Disqualification Event'. Such an event is deemed to have taken place where, as a result of a change to the Solvency II regulations, the Contingent Convertible Tier 1 Notes are fully excluded from counting as own funds. On the occurrence of such an event and where the Company has chosen not to use its corresponding right to redeem the notes the Company shall no longer be able to exercise its discretion to cancel any interest payments due on such Contingent Convertible Tier 1 Notes on any interest payment date following the occurrence of this event. Accordingly the Contingent Convertible Tier 1 Notes are considered to meet the definition of a financial liability for financial reporting purposes.

   The Contingent Convertible Tier 1 Notes may be redeemed at par on the First Reset Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date such redemption must be funded out of the proceeds of a new issuance of, or exchanged into, Tier 1 Own Funds of the same or a higher quality than the Contingent Convertible Tier 1 Notes. In respect of any redemption or purchase of the Contingent Convertible Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA. Furthermore, on occurrence of a trigger event, linked to the Solvency II capital position and as documented in the terms of the Contingent Convertible Tier 1 Notes, the Contingent Convertible Tier 1 Notes will automatically be subject to conversion to ordinary shares of the Company at the conversion price of US $1,000 per share, subject to adjustment in accordance with the terms and conditions of the notes and all accrued and unpaid interest will be cancelled. Following such conversion there shall be no reinstatement of any part of the principal amount of, or interest on, the Contingent Convertible Tier 1 Notes at any time.

Notes to the consolidated financial statements

Continued

E. Financial assets & liabilities continued
E5. Borrowings continued
E5.1 Analysis of borrowings continued

j. On 28 April 2020, the Company issued £500 million fixed rate Tier 2 Notes (the 'Tier 2 Notes') which are unsecured and subordinated. The Tier 2 Notes have a maturity date of 28 April 2031 and include an issuer par call right for the three-month period prior to maturity. The Tier 2 Notes bear interest on the principal amount at a fixed rate of 5.625% per annum payable annually in arrears on 28 April each year.

k. On 4 June 2020, the Company issued US $500 million fixed rate reset callable Tier 2 notes (the 'Fixed Rate Reset Tier 2 Notes') which are unsecured and subordinated. The Fixed Rate Reset Tier 2 Notes have a maturity date of 4 September 2031 with an optional issuer par call right on any day in the three-month period up to and including 4 September 2026. The Fixed Rate Reset Tier 2 Notes bear interest on the principal amount at a fixed rate of 4.75% per annum up to the interest rate reset date of 4 September 2026. If the Fixed Rate Reset Tier 2 Notes are not redeemed before that date, the interest rate resets to the sum of the applicable CMT rate (based on the prevailing five year US Treasury yield) plus a margin of 4.276%, being the initial credit spread used in pricing the notes. Interest is payable on the Fixed Rate Reset Tier 2 Notes semi-annually in arrears on 4 March and 4 September each year.

l. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £500 million 5.867% Tier 2 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £500 million 5.867% Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value as at the date of acquisition of £559 million. The fair value adjustment will be amortised over the remaining life of the notes. Interest is payable semi-annually in arrears on 13 June and 13 December.

m. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £250 million fixed rate reset callable Tier 2 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £250 million fixed rate reset callable Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value as at the date of acquisition of £275 million. The fair value adjustment will be amortised over the remaining life of the notes. The notes include an issuer par call right exercisable on 13 June 2024. Interest is payable semi-annually in arrears on 13 June and 13 December. These notes initially bear interest at a rate of 5.766% on the principal amount and the rate of interest will reset on 13 June 2024, and on each interest payment date thereafter, to a margin of 5.17% plus the yield of a UK Treasury Bill of similar term.

n. On 22 July 2020, as part of the acquisition of ReAssure Group plc, the Group assumed the £250 million 4.016% Tier 3 subordinated notes. On the same date, the Company was substituted in place of ReAssure Group plc as issuer of the notes. The £250 million 4.016% Tier 3 subordinated notes have a maturity date of 13 June 2026 and were initially recognised at their fair value as at the date of acquisition of £259 million. The fair value adjustment is being amortised over the remaining life of the notes. Interest is payable semi-annually in arrears on 13 June and 13 December.

o. The Group has in place a £1.25 billion unsecured revolving credit facility (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 2021.

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.

	At 1 January 2021 £m	Cash movements: New borrowings, net of costs £m	Cash movements: Repayments £m	Non-cash movements: Changes in fair value £m	Non-cash movements: Movement in foreign exchange £m	Non-cash movements: Other movements[1] £m	Movements in fair value £m	At 31 December 2021 £m
£200 million 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)	4	(13)	(10)	43	4,268

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 2020 £m	New borrowings, net of costs £m	Repayments £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[1] £m	Movements in fair value £m	At 31 December 2020 £m
Limited recourse bonds 2022 7.59%	35	–	(36)	–	–	–	1	–
Property Reversions loan	99	–	(19)	–	4	–	–	84
£200 million 7.25% unsecured subordinated loan	196	–	–	–	–	–	4	200
£300 million senior unsecured bond	121	–	–	–	–	–	1	122
£428 million Tier 2 subordinated notes	426	–	–	–	–	–	–	426
£450 million Tier 3 subordinated notes	449	–	–	–	–	–	–	449
US $500 million Tier 2 bonds	376	–	–	–	–	(12)	–	364
€500 million Tier 2 notes	417	–	–	–	–	24	1	442
US $750 million Contingent Convertible Tier 1 notes	–	566	–	–	–	(23)	2	545
£500 million Tier 2 notes	–	483	–	–	–	–	1	484
US $500 million Fixed Rate Reset Tier 2 notes	–	396	–	–	–	(32)	–	364
£500 million 5.867% Tier 2 subordinated notes	–	–	–	559	–	–	(3)	556
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	–	–	–	275	–	–	(3)	272
£250 million 4.016% Tier 3 subordinated notes	–	–	–	259	–	–	–	259
	2,119	1,445	(55)	1,093	4	(43)	4	4,567

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost. No interest was capitalised in the year.

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 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

The Group has largely completed its transition from LIBOR to the replacement Risk Free Rates. The programme has gone through a systematic process to identify and address balance sheet exposures with LIBOR dependencies. All derivative exposures and the majority of non-derivative asset exposures have successfully been transitioned over the course of the programme. Insurance contract liabilities and related items have transitioned to the SONIA Solvency II curve published by the PRA with an adjustment of 36bps. The remaining residual exposures relate 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 do not give rise to material solvency or liquidity risks for the Group.

The indirect liquid credit exposures are in relation to fixed rate loans, with LIBOR only relevant if the issuer cannot repay the debt at the expected maturity date. Cessation of LIBOR will have no impact on trading or liquidity. The indirect illiquid credit exposure 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.

The liquid indirect exposures will be resolved through liability management transactions launched by issuers, which either already include sufficient fallback provisions or the asset managers will continue to engage directly with the issuers to amend the fallback clauses. For all of the remaining illiquid exposures, progress on transitioning away from LIBOR is well advanced and is expected to complete before the next interest rate reset date.

E6.2 Financial risk analysis

Transactions in financial instruments result in the Group assuming financial risks. These include credit risk, market risk and financial soundness risk. Each of these are described below, together with a summary of how the Group manages the risk, along with sensitivity analysis where appropriate. The sensitivity analysis does not take into account second order impacts of market movements, for example, where a market movement may give rise to potential indicators of impairment for the Group's intangible balances.

A Group-wide project was undertaken to enhance the Group's approach to managing the financial risks of climate change, including embedding climate risk considerations into the Group's overall Risk Management Framework. The project has enabled the Group to embed the requirements and demonstrate compliance with the PRA Supervisory Statement SS3/19. Further details on managing the related climate change risks are provided in the Task Force for Climate-related Financial Disclosures ('TCFD') on page 51 of the Annual Report and Accounts and details of the impact of climate change on the financial statements are included in note A3.8.

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

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 impact of non-government debt securities and, inter alia, the change in market credit spreads during the year is fully reflected in the values shown in these consolidated financial statements. Credit spreads are the excess of corporate bond yields over gilt yields to reflect the higher level of risk. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap rates.

There is an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds (where risks and rewards fall wholly to shareholders), non-profit funds and shareholders' funds.

The Group holds £21,668 million (2020: £23,799 million) of corporate bonds which are used to back annuity liabilities in non-profit funds. These annuity liabilities include an aggregate credit default provision of £1,036 million (2020: £1,156 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 £28 million (2020: decrease £5 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 £37 million (2020: increase £2 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. 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. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is relying on shareholder support.

Credit quality of assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating.

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.

2020	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	6	195	–	–	368	78	647
Derivatives	–	1,220	2,263	1,967	–	1,231	199	6,880
Debt securities[1,2]	9,041	35,184	24,747	14,960	2,497	6,658	16,368	109,455
Reinsurers' share of insurance contract liabilities	–	6,524	2,966	–	–	52	–	9,542
Reinsurers' share of investment contract liabilities	–	16	–	1	–	–	9,542	9,559
Cash and cash equivalents	30	1,728	7,049	173	–	10	2,008	10,998
	9,071	44,678	37,220	17,101	2,497	8,319	28,195	147,081

1 For financial assets that do not have credit ratings assigned by external ratings agencies, the Group assigns internal ratings for use in management and monitoring of credit risk. £117 million of AAA, £963 million of AA, £2,446 million of A, £1,741 million of BBB and £219 million of BB and below debt securities are internally rated. If a financial asset is neither rated by an external agency nor internally rated, it is classified as 'non-rated'.
2 Non-rated debt securities includes equity release mortgages with a value of £3,484 million (further details are set out in note E2.3) and non-rated bonds.

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.

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
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 and a Portfolio Credit Committee to perform oversight and monitoring of internal credit ratings for externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessments from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. The internal credit ratings used by the Group are provided by fund managers or for certain assets (in particular, equity release mortgages) determined by the Life Companies. The Committees review the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes, in line with regulatory requirements.

Throughout 2021, the Group has continued to take 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 313 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 developments regarding the Russia-Ukraine conflict, this includes the shareholders' debt exposure to Russia and Ukraine. The Group's exposure to Russia and Ukraine is small when compared to the size of its overall investment portfolio.

Concentration of credit risk
Concentration of credit risk might exist where the Group has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group has most of its counterparty risk within its life business and this is monitored by the counterparty limit framework contained within the Group Credit Risk Policy and further provided 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. The Group is restricted from assuming concentrations of risk with individual external reinsurers by specifying limits on ceding and minimum conditions for acceptance and retention of reinsurers. However, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, some concentration risk does arise with individual reinsurers. The Group manages its exposure to reinsurance credit risk through the operation of a credit policy, collateralisation where appropriate, and regular monitoring of exposures at the Reinsurance Management Committee.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained in respect of stock lending, certain reinsurance arrangements and to provide security against the daily mark to model value of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed, and performs an impairment valuation when impairment indicators exist and the asset is not fully secured (and is not carried at fair value). See note E4 for further information on collateral arrangements.

E6.2.2 Market risk

Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.

The Group is mainly exposed to market risk as a result of:
- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including shareholder reserves yet to be distributed, surplus assets within the with-profit funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges derived from the value of invested assets of the business.

The Group manages the levels of market risk that it accepts through the operation of a market risk policy and an approach to investment management that determines:
- the constituents of market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- the asset allocation and portfolio limit structure;
- diversification from and within benchmarks by type of instrument and geographical area;
- the net exposure limits by each counterparty or group of counterparties, geographical and industry segments;
- control over hedging activities;
- reporting of market risk exposures and activities; and
- monitoring of compliance with market risk policy and review of market risk policy for pertinence to the changing environment.

All operations comply with regulatory requirements relating to the taking of market risk.

Markets remain volatile, particularly given concerns over inflation and how quickly central banks will act to reduce these pressures on economies whilst balancing the need to aid post pandemic recovery. This is discussed in more detail on page 64 of the Risk Management section of the Annual Report and Accounts.

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 a result of time decay or changes to interest rate volatility are not captured in the sensitivity analysis.

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
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. Comparative information has been restated to incorporate a movement in the rate of inflation.

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 £364 million (2020 restated: £399 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 £415 million (2020 restated: £585 million).

Equity and property risk
The Group has exposure to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities and property investments which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with-profit funds, unit-linked funds or equity release mortgages in the non-profit funds. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profit funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk, whilst the Group also has exposure to the value of guarantees provided to with-profit policyholders. In addition some equity investments are held in respect of shareholders' funds. For the non-profit fund property price risk from equity release mortgages is borne by the Group with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board. The Group as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets where appropriate.

The sensitivity analysis for equity and property price risk illustrates how a change in the fair value of equities and properties affects the Group result. It takes into account the effect of such changes in equity and property prices on all assets and liabilities that contribute to the Group's reported profit after tax and in equity (but excludes the impact on the Group's pension schemes).

A 10% decrease in equity prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £294 million (2020: £281 million).

A 10% increase in equity prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £263 million (2020: £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 £6 million (2020: £25 million).

A 10% increase in property prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £4 million (2020: £16 million).

The sensitivity to changes in equity prices is primarily driven by the Group's equity hedging arrangements over the value of future management charges that are linked to asset values.

Currency risk

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, some historic business written in the Republic of Ireland and Ark Life business (until sold on 1 November 2021), 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 the year, 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.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2021, since unhedged exposure to foreign currency was relatively low (2020: not considered significant).

E6.2.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing capital management risk, tax risk and liquidity and funding risk.

Capital management risk is defined as the failure of the Group, or one of its separately regulated subsidiaries, to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Group has exposure to capital management risk through the requirements of the Solvency II capital regime, as implemented by the PRA, to calculate regulatory capital adequacy at a Group level. The Group's UK life subsidiaries have exposure to capital management risk through the Solvency II regulatory capital requirements mandated by the PRA at the solo level. The Group's approach to managing capital management risk is described in detail in note I3.

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

Tax risk is defined as the risk of financial failure, reputation damage, loss of earnings/value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting, understanding of tax legislation and disclosure of financial, taxation and regulatory information. Tax risk 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 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 Principles and Practices of Financial Management ('PPFM');
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The Group's liquidity risk management strategy is based on a 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 acquisition 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.

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*.

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

2020	1 year or less or on demand £m	1–5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	20,027	32,703	81,177	–	133,907
Investment contracts	165,106	–	–	–	165,106
Borrowings[1]	551	1,661	3,145	84	5,441
Deposits received from reinsurers[1]	699	832	2,569	–	4,100
Derivatives[1]	274	526	224	–	1,024
Net asset value attributable to unitholders	3,791	–	–	–	3,791
Obligations for repayment of collateral received	5,205	–	–	–	5,205
Reinsurance payables	134	–	–	–	134
Payables related to direct insurance contracts	1,669	–	–	–	1,669
Lease liabilities[1]	12	36	84	–	132
Accruals and deferred income	509	4	8	–	521
Other payables	1,265	–	1	–	1,266

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.

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

E6.2.4 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, malpractice 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.

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: Failure to have a customer centric culture which drives appropriate behaviours and decisions leading to customer interactions and outcomes which meet or exceed reasonable customer and regulator expectations and which take account of potential customer vulnerability.
- Customer Transformation: The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Group's customer treatment risk appetite and regulatory requirements.
- Product and Propositions: Failure to design and/or manage products/propositions appropriately, or failure of the manufacturer to ensure that products/propositions are distributed to the appropriate target market, perform as intended and in line with the expectations set.
- Sales and Distribution: Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes leading to reputational, financial and/or operational detriment.

The Group's Conduct Risk Appetite, sets the boundaries within which the Group expect customer outcomes to be managed. In addition, the Group Conduct Risk Framework, which overarches our Risk Universe and all risk policies, consists of a set of outcomes, intents and standards for all staff to follow to ensure that we have embedded and effective controls in place across our business activities to detect where our customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions. From a qualitative perspective, the customer risks for the Group are regularly reported to management oversight committees.

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 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 for the Group's 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').

Notes to the consolidated financial statements

Continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued

F1. Liabilities under insurance contracts continued

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 (see note G2).

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.

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.

Notes to the consolidated financial statements

Continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued

F1. Liabilities under insurance contracts continued

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 2021 £m	Reinsurers' share 2021 £m	Gross liabilities 2020 £m	Reinsurers' share 2020 £m
Life assurance business:				
Insurance contracts	99,169	8,587	103,012	9,542
Investment contracts with DPF	29,695	–	30,895	–
	128,864	8,587	133,907	9,542
Amounts due for settlement after 12 months	114,545	7,472	113,880	8,546

	Gross liabilities 2021 £m	Reinsurers' share 2021 £m	Gross liabilities 2020 £m	Reinsurers' share 2020 £m
At 1 January	133,907	9,542	95,643	7,324
Premiums	7,455	2,079	4,706	796
Claims	(9,656)	(1,597)	(7,808)	(1,613)
Foreign exchange adjustments	(1,168)	(48)	851	4
Disposal of Ark Life (see note H3)	(799)	(730)	–	–
Acquisition of ReAssure businesses (see note H2.1)	–	–	24,606	2,782
L&G Part VII portfolio transfer (see note H2.2)	–	–	9,558	–
Other changes in liabilities[1]	(875)	(659)	6,351	249
At 31 December	128,864	8,587	133,907	9,542

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.

	2021 £m	2020 £m
At 1 January	1,768	1,367
Transfer (to)/from consolidated income statement	(106)	113
Acquisition of ReAssure businesses (see note H2.1)	–	136
L&G Part VII transfer (see note H2.2)	–	261
Foreign exchange movements	139	(109)
At 31 December	**1,801**	1,768

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 £2,079 million (2020: £796 million).

Notes to the consolidated financial statements

Continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued

F3. Reinsurance continued

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 £4,882 million (2020: £4,324 million).

Where the Group receives collateral on reinsurance transactions in the form of cash it is recognised in the statement of consolidated financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Deposits received from reinsurers'. Where there is interest payable on such collateral, it is recognised within 'Net expense under arrangements with reinsurers' (see note F3.3). The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2021 are set out below.

	Reinsurance transactions	
	2021 £m	2020 £m
Financial assets	373	427
Financial liabilities	373	427

F3.3 Net income/(expense) under arrangements with reinsurers

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within the HWPF. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group.
The amount recognised in the statement of consolidated financial position in respect of this deposit is £3.2 billion as at 31 December 2021 (31 December 2020: £3.7 billion). Interest is payable to the reinsurer on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring-fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring-fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring-fenced assets. This has the effect of ensuring that the investment risk on the ring-fenced pool of assets falls on the reinsurer. The investment return on the ring-fenced assets included within net investment return in the consolidated income statement is equal to an equivalent amount recognised in net expense under arrangements with reinsurers.

	2021 £m	2020 £m
Interest payable on deposits from reinsurers	(11)	(13)
Premium adjustments	33	(206)
Net income/(expense) under arrangements with reinsurers	22	(219)

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 predefined 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, as outlined in page 64 of the Annual Report and Accounts. The impact over the longer term continues to be monitored, however given the uncertainty no adjustments to assumptions as a result of the impacts of COVID-19 have been deemed necessary to date.

Notes to the consolidated financial statements

Continued

F. Insurance contracts, investment contracts with DPF and reinsurance continued

F4. Risk management – insurance risk continued

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix or future bonus rates. The most significant non economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £70 million (2020: £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 £70 million (2020: £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 £517 million (2020: £619 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 £530 million (2020: £627 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 £27 million (2020: £40 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 £27 million (2020: £44 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.

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.

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 £1,968 million (2020: £2,590 million) and £111 million (2020: £131 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 £349 million (2020: £374 million) and £6 million (2020: £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'.

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

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 2021 £m	(Decrease)/ increase in insurance liabilities 2020 £m
Change in longevity assumptions	(272)	(369)
Change in persistency assumptions	(12)	6
Change in mortality assumptions	(7)	31
Change in expenses assumptions	275	(36)

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.

2020:

The £369 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 2019 projection tables.

The £6 million and £31 million negative impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £36 million positive impact of changes in expense assumptions principally reflects synergies generated upon the completion of the Part VII transfer of the L&G Mature Savings business, partially offset by an increase in reserves in respect of expected costs associated with the delivery of the Group Target Operating Model for IT and Operations and updates to investment expense assumptions, principally reflecting changes to asset mix.

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.

2021	Gross[1] Insurance contracts £m	Gross[1] 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	–

1 £9,864 million (2020: £7,883 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

2020	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	10,095	62	917	–
Deferred annuities – without guarantees	1,835	340	–	–
Immediate annuities	7,478	–	4,377	–
Unitised with-profit	14,375	28,210	–	–
Total pensions	33,783	28,612	5,294	–
Life:				
Immediate annuities	365	–	2	–
Unitised with-profit	9,869	1,210	–	–
Life with-profit	2,445	–	7	–
Total life	12,679	1,210	9	–
Other	1,348	–	212	–
Non-profit funds:				
Deferred annuities – with guarantees	636	–	–	
Deferred annuities – without guarantees	1,966	–	(115)	–
Immediate annuities	35,641	–	2,459	–
Protection	3,012	–	1,713	–
Unit-linked	14,062	1,064	31	–
Other	(115)	9	(61)	–
	103,012	30,895	9,542	–

With-profit fund (unitised and traditional)

The Group operates a number of with-profit funds in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-participating business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ('GAR').

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in the PPFM for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each with-profit fund. Compliance with the PPFM is reviewed annually and reported to the PRA, Financial Conduct Authority ('FCA') and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others. For the HWPF, under the Scheme, shareholders are entitled to receive certain defined cash flows arising on specified blocks of UK and Irish business.

Unitised and traditional with-profit policies are exposed to equivalent risks, the main difference being that unitised with-profit policies purchase notional units in a with-profit fund whereas traditional with-profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ('GCO') policies. In addition, certain unit prices in the HWPF are guaranteed not to decrease.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates (see note E6.2.2).

The Group seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business. In addition, the Group has in place longevity swaps that provide downside protection over longevity risk.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

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

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

Market and credit risk is influenced by the extent to which the cash flows under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

G. Other statement of consolidated financial position notes

G1. Pension schemes

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit pension schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contract liabilities and investment contract liabilities.

As required by IFRIC 14, IAS 19 – *'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, to the extent that the economic surplus (prior to the elimination of the insurance policies issued by Group entities) will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. The Group recognises a pension surplus on the basis that it is entitled to the surplus of each scheme in the event of a gradual settlement of the liabilities, due to its ability to order a winding up of the Trust.

Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Group after they are paid into the Scheme, a liability is recognised when the obligation arises. The net 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 unapproved retirement benefit scheme ('ReAssure Private Retirement Trust'):

	2021 £m	2020 £m
Pearl Group Staff Pension Scheme		
Economic surplus	263	527
Adjustment for insurance policies eliminated on consolidation	(1,680)	(596)
Net economic deficit	(1,417)	(69)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	(92)	(185)
Net pension scheme liability, as reported	(1,509)	(254)
Reimbursement right in respect of reinsurance, as reported	212	–
Add: value attributed to assets held by PLL within financial assets[1]	1,896	756
Adjusted net pension scheme asset	599	502
PGL Pension Scheme		
Economic surplus	26	30
Adjustment for insurance policies eliminated on consolidation	(1,618)	(1,749)
Net pension scheme liability, as reported	(1,592)	(1,719)
Add: assets held by PLL within financial assets[1]	2,084	2,177
Adjusted net pension scheme asset	492	458
Abbey Life Staff Pension Scheme		
Economic surplus/(deficit)	12	(61)
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	(7)	–
Net pension scheme asset/(liability)	1	(61)
ReAssure Staff Pension Scheme		
Economic surplus	54	16
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	(19)	(5)
Net pension scheme asset	35	11
ReAssure Private Retirement Trust		
Net pension scheme liability	(2)	(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 for the first time in relation to both the 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.

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 these schemes is set out below.

Guaranteed Minimum Pension ('GMP') equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs needed to be equalised. A further ruling in November 2020 clarified requirements in respect of transfers out. During 2020, the Group updated the initial assessment of its allowance for the potential cost of equalising GMP for the impact between males and females included its IAS 19 actuarial liabilities. At 31 December 2021 the GMP equalisation reserve was calculated as a percentage uplift to the defined benefit obligation for each scheme as follows: PGL Scheme: 0.5% (2020: 0.5%); Pearl Scheme: 0.37% (2020: 0.37%); Abbey Life Scheme: 0.37% (2020: 0.37%); and the ReAssure Scheme: 0.1% (2020: 0.1%).

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 settled 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 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.

A triennial funding valuation of the Pearl Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £104 million, on the agreed technical provisions basis. The triennial funding valuation of the Scheme as at 30 June 2021 commenced during the year and is ongoing as at 31 December 2021. 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 derived from government bond yields for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

Pension scheme commitment agreement and buy-in

On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with PGH2 to complete a series of buy-ins that are scheduled to be executed by 31 December 2023. At the same time, the Pearl Scheme completed the first buy-in with Phoenix Life Limited ('PLL') covering 25% of the Scheme's pensioner 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. Risks, including longevity improvement risk, were transferred to PLL effective from 28 May 2021 and 31 August 2021 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.

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 2021 was £1,680 million (2020: £596 million) which includes an amount owed by PLL of £12 million (2020: £nil).

The Commitment Agreement replaced the 2012 Pensions Agreement, which had previously included provisions covering contribution payments, additional contributions payable should agreed funding targets not be met, share charge over certain Group entities and covenant tests. The main terms of the Commitment Agreement are detailed below.

The new agreement contains provisions under which payments by PGH2 to the Scheme are required in the event that the Group does not meet the minimum buy-in completion schedule. There are two different types of payments as detailed below:

- gilts deficit recovery contributions: These operate in a similar way to the security under the 2012 Pension Agreement. Contributions calculated as amounts required to reach full funding on a gilts-basis by 30 June 2027; and
- contingent contributions: These represent 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 £50 million.

The new agreement also introduces a new form of security provided by PGH2 to the trustee which will be in place until the final buy-in is completed. The share charges over certain Group entities have been replaced by a new surety bond arrangement. The surety bonds have been written by two external third-party insurers, each providing £100 million of cover payable to the Scheme following any one of the following trigger events:

- insolvency of the Company, PGH2, PGS, Standard Life Assurance Limited, PLL, or Phoenix Life Assurance Limited; and
- failure to pay any contributions to the Scheme due under the terms of the Commitment Agreement.

The cover provided by the surety bonds will be reduced from £200 million to £100 million (in aggregate) once the completed aggregate buy-in proportion exceeds 75%. The cover remains at £200 million following completion of the October 2021 buy-in transaction. The agreements between the trustee and the surety providers are backed by a guarantee and an indemnity from the Company, PGH2 and PGS to the surety providers to repay them in the event of a claim under the surety bond.

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

Contributions totalling £70 million were paid into the Pearl Scheme in 2020. Following the signing of the new Commitment Agreement PGH2 paid the balance of the remaining contributions under the 2012 Pensions Agreement (£37 million) in addition to the monthly instalments paid up to the date of the agreement. No further contributions are to be paid to the Pearl Scheme however, PGH2 will continue to meet the administrative and non-investment running expenses of the Scheme as set out in the schedule of contributions.

Reimbursement right asset in respect of reinsurance arrangement

In November 2021, PLL entered into a quota share reinsurance arrangement with an external insurer to reinsure c.64% of the risks transferred to PLL upon completion of the third buy-in transaction with the Pearl Scheme. A premium of £261 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.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

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	–
Gain from changes in financial assumptions	–	89	–	89	–
Experience loss	–	(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

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January	2,834	(2,313)	(183)	(24)	314
Interest income/(expense)	53	(45)	(4)	(1)	3
Past service cost	–	(1)	–	–	(1)
Included in profit or loss	53	(46)	(4)	(1)	2
Remeasurements:					
Return on plan assets excluding amounts included in interest income	198	–	–	–	198
Gain from changes in demographic assumptions	–	51	–	–	51
Loss from changes in financial assumptions	–	(205)	–	–	(205)
Experience gain	–	19	–	–	19
Change in provision for tax on economic surplus available as a refund	–	–	2	–	2
Change in minimum funding requirement obligation	–	–	–	25	25
Included in other comprehensive income	198	(135)	2	25	90
Employer's contributions	70	–	–	–	70
Income received from insurance policies	5	–	–	–	5
Benefit payments	(110)	110	–	–	–
Assets transferred as premium for Scheme buy-in	(735)	–	–	–	(735)
At 31 December	2,315	(2,384)	(185)	–	(254)

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G1. Pension schemes continued

G1.1 Pearl Group Staff Pension Scheme continued

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2021		2020	
	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	1,505	(30)
Fixed interest gilts	–	–	50	–
Other debt securities	349	–	1,301	–
Properties	104	104	140	140
Private equities	4	4	5	5
Hedge funds	4	4	5	5
Cash and other	67	–	98	–
Obligations for repayment of stock lending collateral received	(159)	–	(789)	–
Reported scheme assets	807	135	2,315	120
Add back:				
Insurance policies eliminated on consolidation	1,680	1,680	596	596
Economic value of assets	2,487	1,815	2,911	716

The Group ensures that the investment positions are managed within an Asset Liability Matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the Pearl Scheme. Within this framework an allocation of the scheme assets is invested in collateral for interest rate and inflation rate hedging where the intention is to hedge 100% of the interest rate and inflation rate risk measured on a gilts-basis.

The Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- deferred scheme members: 40% (2020: 40%); and
- pensioners: 60% (2020: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2021 is 16 years (2020: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2021 %	2020 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.20	2.85
Rate of increase for deferred pensions ('CPI')	2.70	2.10
Discount rate	2.00	1.40
Inflation – RPI	3.30	2.90
Inflation – CPI	2.70	2.10

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 2020 Core Projections (2020: From 1 January 2017 based on amended CMI 2019 Core Projections) and a long-term rate of improvement of 1.70% (2020: 1.70%) per annum for males and 1.20% (2020: 1.20%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.8 years and 30.6 years for male and female members respectively (2020: 30.1 years and 31.0 years respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

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)

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	2,384	(95)	98	76	(87)	86	(86)

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.

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

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

Scheme details

Defined contribution scheme

On 1 July 2020 the Group closed the defined contribution section of the PGL Scheme and ceased making contributions from this date. Contributions in the period to 1 July 2020 were £5 million.

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 2021, undertaken by independent qualified actuaries.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made.

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £246 million. The IFRS valuation cash flows reflect current 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 2021 is £1,618 million (2020: £1,749 million).

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

2021	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	35	(1,754)	(1,719)
Interest income/(expense)	–	(25)	(25)
Administrative expenses	(4)	–	(4)
Past service cost	–	–	–
Included in profit or loss	(4)	(25)	(29)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	–	–	–
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)

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	54	(1,691)	(1,637)
Interest income/(expense)	1	(31)	(30)
Administrative expenses	(3)	–	(3)
Past service costs	–	(1)	(1)
Included in profit or loss	(2)	(32)	(34)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	(4)	–	(4)
Gain from changes in demographic assumptions	–	7	7
Loss from changes in financial assumptions	–	(154)	(154)
Experience gain	–	41	41
Included in other comprehensive income	(4)	(106)	(110)
Income received from insurance policies	75	–	75
Benefit payments	(75)	75	–
Assets transferred as premium for 2019 scheme buy-in	(13)	–	(13)
At 31 December	35	(1,754)	(1,719)

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:

	2021		2020	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Cash and other	31	–	35	–
Reported scheme assets	31	–	35	–
Add back:				
Insurance policies eliminated on consolidation	1,618	1,610	1,749	1,749
Economic value of assets	**1,649**	**1,610**	1,784	1,749

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- deferred scheme members: 36% (2020: 36%); and
- pensioners: 64% (2020: 64%)

The weighted average duration of the defined benefit obligation at 31 December 2021 is 16 years (2020: 16 years).

Principal assumptions

The principal financial assumptions of the PGL Pension Scheme are set out in the table below:

	2021 %	2020 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	3.30	2.90
Rate of increase for deferred pensions ('CPI')	2.70	2.10
Discount rate	2.00	1.40
Inflation – RPI	3.30	2.90
Inflation – CPI	2.70	2.10

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the 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 2017 to 31 December 2020 are based on modified CMI 2019 Core Projections and from 1 January 2021 are based on modified CMI 2020 Core Projections (2020: From 1 January 2017 based on modified CMI 2019 Core Projections) with a long-term rate of improvement of 1.70% (2020: 1.70%) per annum for males and 1.20% (2020: 1.20%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.0 years (2020: 28.4 years) and 28.9 years (2020: 29.3 years) for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

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)

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,754	(67)	70	55	(53)	65	(65)

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 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 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 and a revised schedule of contributions was agreed effective from November 2021, for PeLHL to pay the following amounts in respect of deficit contributions:

- fixed monthly contributions of £400,000 payable from 30 April 2021 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.

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

An additional liability of £7 million (2020: £nil) has been recognised reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £21 million in accordance with the minimum funding requirement. A deferred tax asset of £4 million (2020: £nil) 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.

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

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)
Administration expenses	(1)		–	–	(1)
Included in profit or loss	3	(5)	–	–	(2)
Remeasurements:					
Return on plan assets excluding amounts included in interest income	11	–	–	–	11
Experience loss	–	(5)	–	–	(5)
Gain from changes in demographic assumptions	–	6	–	–	6
Gain 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

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	254	(329)	(75)
Interest income/(expense)	5	(7)	(2)
Administrative expenses	(1)	–	(1)
Included in profit or loss	4	(7)	(3)
Remeasurements:			
Return on plan assets excluding amounts included in interest income	28	–	28
Gain from changes in demographic assumptions	–	6	6
Loss from changes in financial assumptions	–	(31)	(31)
Experience gain	–	8	8
Included in other comprehensive income	28	(17)	11
Employer's contributions	6	–	6
Benefit payments	(12)	12	–
At 31 December	280	(341)	(61)

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2021		2020	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Diversified income fund	**139**	–	118	–
Fixed interest government bonds	**68**	–	70	–
Corporate bonds	**118**	–	86	–
Derivatives	**1**	1	2	2
Cash and cash equivalents	**4**	–	4	–
Pension scheme assets	**330**	1	280	2

Derivative values above include interest rate and inflation rate swaps and foreign exchange forward contracts. The Abbey Life Scheme has hedged its inflation risk through an inflation swap. It is currently exposed to interest rate risk to the extent that the holdings in bonds are mismatched to the scheme liabilities. The long-term intention is to fully hedge this risk through an interest rate swap. Further key risks that will remain are longevity and credit spread exposures.

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
The calculation of the defined benefit obligation can be allocated to the Abbey Life Scheme's members as follows:
- deferred scheme members: 44% (2020: 49%); and
- pensioners: 56% (2020: 51%)

The weighted average duration of the defined benefit obligation at 31 December 2021 is 16 years (2020: 17 years).

Principal assumptions
The principal financial assumptions of the Abbey Life Scheme are set out in the table below:

	2021 %	2020 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.20	2.85
Rate of increase for deferred pensions ('CPI' subject to caps)	2.70	2.10
Discount rate	2.00	1.40
Inflation – RPI	3.30	2.90
Inflation – CPI	2.70	2.10

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the 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 2020 are based on amended CMI 2020 Core Projections (2020: From 1 January 2017 based on amended CMI 2019 Core Projections) and a long-term rate of improvement of 1.70% (2020: 1.70%) per annum for males and 1.20% (2020: 1.20%) per annum for females. Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 24.9 years and 25.7 years for male and female members respectively (2020: 25.4 years and 26.5 years respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

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)**

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	341	(14)	15	10	(11)	13	(13)

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 2020 undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

The last funding valuation of the ReAssure Scheme was carried out by a qualified actuary as at 31 December 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 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 £1 million (2020: £1 million) have been made during the year to cover these costs.

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

Summary of amounts recognised in the consolidated financial statements

The amounts recognised in the consolidated financial statements are as follows:

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

2020	Fair value of scheme assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January	–	–	–	–
Acquisition of ReAssure businesses	459	(424)	(12)	23
Interest income/(expense)	4	(4)	–	–
Administrative expenses	(1)	–	–	(1)
Included in profit or loss	3	(4)	–	(1)
Remeasurements:				
Return on plan assets excluding amounts included in interest income	19	–	–	19
Loss from changes in demographic assumptions	–	(15)	–	(15)
Loss from changes in financial assumptions	–	(25)	–	(25)
Experience gain	–	2	–	2
Change in provision for tax on economic surplus available as a refund	–	–	7	7
Included in other comprehensive income	19	(38)	7	(12)
Employer's contributions	1	–	–	1
Benefit payments	(5)	5	–	–
At 31 December	477	(461)	(5)	11

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:

	2021		2020	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Equities	62	–	56	–
Government bonds	151	–	121	–
Corporate bonds	173	–	181	–
Real Estate	–	–	41	–
Managed funds	60	–	–	–
Other Quoted Securities	43	–	70	–
Cash and cash equivalents	3	–	8	–
Pension scheme assets	492	–	477	–

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the ReAssure Scheme's members as follows:
- deferred scheme members: 66% (2020: 74%); and
- pensioners: 34% (2020: 26%).

The weighted average duration of the defined benefit obligation at 31 December 2021 is 21 years (2020: 21 years).

Principal assumptions

The principal assumptions of the ReAssure Scheme are set out in the table below:

	2021 %	2020 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.20	2.85
Rate of increase for deferred pensions	2.70	2.10
Rate of increase in salaries	3.70	3.10
Discount rate	2.00	1.40
Inflation – RPI	3.30	2.90
Inflation – CPI	2.70	2.10

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the ReAssure Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

The post-retirement mortality assumptions are in line with SAPS Series 3 light base tables with a 102% (2020: 96%) multiplier for males and a 95% (2020: 92%) multiplier for females, with CMI 2019 projections in line with a 1.50% per annum long-term trend up to and including 31 December 2020. Future longevity improvements from 1 January 2021 onwards are in line with CMI 2020 Core Projections (2020: From 1 January 2015 in line with CMI 2019 Core Projections) with a long-term trend of 1.7% per annum (2020: 1.5%) for males and 1.2% (2020: 1.5%) for females.

Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 60 is 30.1 years and 31.4 years for male and female members respectively (2020: 29.8 years and 31.4 years for male and female members respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

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)

2020

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	461	(25)	25	21	(21)	18	(18)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of consolidated financial position.

G2. Intangible assets

Goodwill

Business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured on initial recognition at cost. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or when there is evidence of possible impairment. For impairment testing, goodwill is allocated to relevant cash generating units. Goodwill is impaired when the recoverable amount is less than the carrying value.

In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

Acquired in-force business

Insurance and investment contracts with DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as acquired in-force business. This acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

The value of acquired in-force business related to investment contracts without DPF is recognised at its fair value and is amortised on a diminishing balance basis.

An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the consolidated income statement. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

The acquired in-force business is allocated to relevant cash generating units for the purposes of impairment testing.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G2. Intangible assets continued

Customer relationships

The customer relationship intangible asset includes vesting pension premiums and is measured on initial recognition at cost. The cost of this intangible asset acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, the customer relationship intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible asset is amortised on a straight-line basis over its useful economic life and assessed for impairment whenever there is an indication that the recoverable amount of the intangible asset is less than its carrying value. The customer relationship intangible asset is allocated to relevant cash generating units for the purposes of impairment testing.

Present value of future profits on non-participating business in the with-profit fund

The present value of future profits ('PVFP') is determined in a manner consistent with the realistic measurement of insurance contract liabilities. The Group's accounting policy for PVFP is described in note F1.

Brands and other contractual arrangements

Brands and other contractual arrangements 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			
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
Additions	–	–	–	111	111	111
Disposal of Ark Life	–	(21)	–	–	–	(21)
Termination of Client Services and 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 and 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 to 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.

2020	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Other intangibles: Present value of future profits £m	Other intangibles: Brands and other £m	Other intangibles: Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	57	5,197	297	82	56	435	5,689
Acquisition of ReAssure businesses	–	1,831	–	–	–	–	1,831
Reclassification to investment contract liabilities	–	–	–	(82)	–	(82)	(82)
At 31 December	57	7,028	297	–	56	353	7,438
Amortisation and impairment							
At 1 January	–	(1,546)	(154)	–	(10)	(164)	(1,710)
Amortisation charge for the year	–	(469)	(14)	–	(4)	(18)	(487)
At 31 December	–	(2,015)	(168)	–	(14)	(182)	(2,197)
Carrying amount at 31 December	57	5,013	129	–	42	171	5,241
Amount recoverable after 12 months	57	4,457	115	–	10	125	4,639

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 cost of £47 million is attributable to the Management Services segment. Value in use has been determined as the present value of certain future cash flows associated with this business. The cash flows used in this calculation have been valued using a risk adjusted discount rate of 9.5% (2020: 9.2%) and are consistent with those adopted by management in the Group's 5 year operating plan and, for the period 2027 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The underlying assumptions of these projections include management's best estimates with regards to longevity, persistency, expenses, mortality and morbidity, determined on the basis as described in note F4.1.

The Management Services segment generates 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 is anticipated that the Management Services segment will generate short-term losses in the period until service agreements can 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 that the recoverable amount of the goodwill was £nil as at 31 December 2021. Accordingly, an impairment charge of £47 million has been recognised in the year. Management considers that any reasonable change in key assumptions would not cause the recoverable amount to exceed its carrying value.

The remaining £10 million relates to the goodwill recognised on the acquisition of AXA Wealth during 2016 and has been allocated to the UK Open segment. This represents the value of the workforce assumed and the potential for future value creation, which relates to the ability to invest in and grow the SunLife brand. Value in use has been determined as the present value of certain future cash flows associated with that business. The cash flows used in the calculation are consistent with those adopted by management in the Group's 5 year operating plan, and for the period 2027 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 11% (2020:11%) 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.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G2. Intangible assets continued

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 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 on classification of the AVIF balance as held for sale. This charge has been included within the 'gain on completion of abrdn plc transaction' in the consolidated income statement. A further impairment of £8 million has been recognised at 31 December 2021. 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. An impairment charge of £18 million has been 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.

During the year, updates to the reserving methodology in respect of a certain block of unit-linked insurance contracts within the Europe operating segment 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 asset. 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 has been recognised in the year, the impact of which partly offsets the release of reserves described above. The resultant net carrying value of this component of the Standard Life Assurance AVIF was £49 million.

Acquired in-force business of £1,831 million was recognised during the prior year upon acquisition of the ReAssure businesses (see note H2.1).

G2.3 Customer relationships

The customer relationships intangible at 31 December 2021 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 2021 of 7.9 years (2020: 8.9 years).

G2.4 Present value of future profits on non-participating business in the with-profit fund

The principal assumptions used to calculate the present value of future profits ('PVFP') are the same as those used in calculating the insurance contract liabilities given in note F4.1.

The PVFP held in intangibles represented future profits on specific blocks of business in the NPL with-profit fund that was partly attributable to the holders of the limited recourse bonds (see note E5). As a consequence, the value of future profits was not attributable solely to policyholders and the PVFP was therefore presented as a separate intangible asset.

Following the repayment of the limited recourse bonds during the prior year, the PVFP is shown as fully attributable to policyholders and consequently in 2020 the PVFP has been represented within investment contract liabilities.

G2.5 Brands and other intangibles

Other intangibles include £20 million which was recognised at cost on acquisition of the AXA Wealth businesses and £36 million recognised at cost on acquisition of the Standard Life Assurance businesses.

The amount recognised in respect of AXA Wealth represents the value attributable to the SunLife brand as at 1 November 2016. The intangible asset was valued on a 'multi-period excess earnings' basis. Impairment testing was performed in a combined test with the AXA goodwill (see section G2.1). The value in use continues to exceed its carrying value. This brand intangible is being amortised over a 10 year period.

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. At 31 December 2021, 'brands and other intangibles' includes £111 million in respect of the Standard Life brand and represents 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 2021 is £108 million.

As part of the transaction with abrdn plc, the CSPA has been significantly amended prior to being dissolved. As a consequence, the CSPA intangible included within 'other intangibles' has been derecognised. At that time, its carrying value was £30 million and this has been included in the calculation of the 'gain on completion of abrdn plc transaction' recognised in the consolidated income statement. This intangible was valued on a 'multi-period excess earnings' basis and was being amortised over a period of 15 years.

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 the statement of consolidated comprehensive income.

The right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the remaining lease term which is between 1 and 11 years (2020: 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.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G3. Property, plant and equipment continued

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 2021	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 2021	29	94	2	59	184
Depreciation					
At 1 January 2021	–	(23)	–	(25)	(48)
Depreciation	–	(9)	(1)	(8)	(18)
Disposals	–	8	–	4	12
At 31 December 2021	–	(24)	(1)	(29)	(54)
Carrying amount at 31 December 2021	29	70	1	30	130

2020	Owner-occupied properties £m	Right-of-use assets – property £m	Right-of-use assets – equipment £m	Equipment £m	Total £m
Cost or valuation					
At 1 January 2020	25	75	2	27	129
Acquisition of ReAssure businesses	8	3	–	4	15
Additions	–	–	–	23	23
At 31 December 2020	33	78	2	54	167
Depreciation					
At 1 January 2020	–	(11)	–	(9)	(20)
Depreciation	–	(12)	–	(16)	(28)
At 31 December 2020	–	(23)	–	(25)	(48)
Carrying amount at 31 December 2020	33	55	2	29	119

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2021 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 £29 million (2020: £33 million) has been categorised as Level 3 based on the non-observable inputs to the valuation technique used. Unrealised gains for the current and prior years are £nil.

The fair value of the owner-occupied properties was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuations are the expected rental values per square foot and the capitalisation rates.

The fair value of the owner-occupied properties valuation would increase (decrease) if the expected rental values per square foot were to be higher (lower) and the capitalisation rates were to be lower (higher).

G4. Investment property

Investment property, including right of use assets, is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses arising from the change in fair value are recognised as income or an expense in the statement of comprehensive income.

Investment property includes right-of-use assets, where the Group acts as lessee. Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where investment property is leased out by the Group, rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

	2021 £m	2020 £m
At 1 January	7,128	5,943
Acquisition of ReAssure businesses	–	556
L&G Part VII portfolio transfer	–	1,221
Additions	819	157
Improvements	22	9
Disposals	(550)	(709)
Remeasurement of right-of-use asset	(1)	(1)
Movement in foreign exchange	(22)	4
Gains/(losses) on adjustments to fair value (recognised in consolidated income statement)	1,196	(52)
	8,592	7,128
Less amounts classified as held for sale (see note A6.1)	(3,309)	–
At 31 December	**5,283**	7,128
Unrealised gains/(losses) on properties held at end of year	529	(43)

As at 31 December 2021, a property portfolio including amounts classified as held for sale of £8,412 million (2020: £6,927 million) is held by the life companies in a mix of commercial sectors and spread geographically throughout the UK and Europe.

Investment properties also includes £73 million (2020: £86 million) of property reversions arising from sales of the NPI Extra Income Plan (see note E5 for further details) and £86 million (2020: 98 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 2021 was £21 million (2020: £17 million). The remeasurement gives rise to a reduction of £1 million (2020: £1 million). There were no disposals of ground rent right-of-use assets during the period (2020: £nil).

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% (2020: 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.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G4. Investment property continued

The ERIP residential property reversions, an interest in the residential property of policyholders who have previously entered into an ERIP policy and been provided with a lifetime annuity in return for the legal title to their property, are valued using unobservable inputs and management's best estimates. As the inward cash flows on these properties will not be received until the lifetime lease is no longer in force, which is usually upon the death of the policyholder, these interests are valued on a reversionary basis which is a discounted current open market value.

The open market values of the properties are independently revalued every two years by members of the Royal Institution of Chartered Surveyors and in the intervening period are adjusted by reference to the Nationwide Building Society regional indices of house prices. The discount period is based on the best estimates of the likely date the property will become available for sale and the discount rate applied is determined by the general partner as its best estimate of the appropriate discount rate. The mortality 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% (2020: 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 2021	Weighted average 2020
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	£21.36	£22.55
		Estimated rental value per hotel room	£8,534	£8,689
		Estimated rental value per parking space	£1,097	£1,169
		Capitalisation rate	4.65%	5.26%

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 £41 million (2020: £13 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £1 million (2020: £1 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2021 £m	2020 £m
Not later than 1 year	**323**	304
Later than 1 year and not later than 5 years	**1,032**	959
Later than 5 years	**3,128**	2,820

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.

	2021 £m	2020 £m
Investment broker balances	249	362
Cash collateral pledged and initial margins posted	958	608
Property related receivables	177	139
Deferred acquisition costs	108	81
Other debtors	313	432
	1,805	1,622
Amount recoverable after 12 months	100	76

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.

	2021 £m	2020 £m
Bank and cash balances	5,246	6,355
Short-term deposits (including notice accounts and term deposits)	3,942	4,643
	9,188	10,998
Less amounts classified as held for sale (see note A6.1)	(76)	–
	9,112	10,998

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 £8,707 million (2020: £10,584 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.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G7. Provisions continued

2021	Leasehold properties £m	Staff related £m	Known incidents £m	Input VAT recovery provision £m	FCA thematic reviews provision £m	Operational tax provision £m	Restructuring provisions: Transition and Transformation provision £m	Restructuring provisions: Transfer of policy administration provision £m	ReAssure provision £m	Other[1,2] £m	Total[1] £m
At 1 January	10	17	35	15	4	12	109	35	7	38	282
Additions in the year	–	–	30	2	–	–	–	9	–	27	68
Utilised during the year	(1)	–	(12)	–	(1)	–	(17)	(9)	(3)	(28)	(71)
Released during the year	(1)	(8)	(7)	–	(3)	–	–	–	(2)	(23)	(44)
At 31 December	8	9	46	17	–	12	92	35	2	14	235

1 Other and total provisions excludes amounts classified as held for sale as at 31 December 2021 of £2 million (2020: £nil).
2 Other provisions includes PA(GI) provision of £2 million (2020: £1 million) previously shown separately.

Leasehold properties

The leasehold properties provision includes a £7 million (2020: £9 million) dilapidations provision in respect of obligations under operating leases and £1 million (2020: £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 £5 million (2020: £13 million), and private medical and other insurance costs for former employees of £4 million (2020: £4 million).

Known incidents

The known incidents provision was created for historical data quality and 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 the year, a £15 million provision was recognised in relation to errors in final encashment calculations for With-Profits Trustee Investment Plans. It is expected that the provision will be utilised within one year. In addition, an £11 million provision was recognised 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. The provision is expected to be utilised within one year.

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, £2 million of the provision was utilised and a further £1 million was released. It is expected that the remaining balance of £9 million will be fully utilised within one year.

The balance also includes a provision of £1 million (2020: £10 million) which reflects the Group's exposure in relation to a an historical underpayment of guaranteed payments to certain pension customers as a result of a systems error. During the year, £7 million was utilised and a further £2 million was released. It is expected that the remaining balance will be fully utilised within one year.

The remaining provisions of £10 million as at 31 December 2021 (2020: £13 million) are expected to be utilised within one to five years. As at the balance sheet date, there are no significant uncertainties which could give rise to a material change in the value of the provisions held for current known incidents.

Input VAT recovery provision

The provision of £17 million (2020: £15 million) reflects the potential outcome of ongoing 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 SLAESL to be fair and reasonable, the revised PESM remains to be agreed and HMRC may take a different view. The current provision is based upon a likely alternative basis for recovery considered to reflect the Group's maximum exposure as at the reporting date, and was increased by £2 million in the year to reflect input VAT recovered in the period. It is currently expected that the provision will be utilised within one to two years.

FCA thematic reviews provision – ReAssure

On acquisition of the ReAssure businesses on 22 July 2020, £9 million of obligations were recognised on a fair value basis, in respect of ReAssure Life Limited ('RLL') to reflect the costs of voluntary remediation to customers of certain legacy products. Following the acquisition, £2 million of the provision was utilised and £3 million was released. During the year, £1 million of this provision was utilised as final remediation payments were made and the remaining provision of £3 million was released.

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 2021 of £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. 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, £17 million of the provision has been utilised, and the remaining £92 million is expected to be utilised within two 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 £9 million and a further £9 million was utilised. The remaining provision of £35 million is expected to be utilised within one year.

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G7. Provisions continued

ReAssure restructuring provision

During 2020 a £7 million restructuring provision was established in respect of RLL to cover severance costs. £3 million of the provision was utilised and a further £2 million was released during the year. The remaining balance of £2 million is expected to be utilised within one year.

Other provisions

During the year, the £23 million provision in respect of indemnities and obligations arising under agreements entered into by the Group in association with corporate activity was released following completion of the transaction with abrdn plc in February 2021. Further details of this transaction are included in note A6.1.

Other provisions includes £4 million (2020: £6 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 £10 million (2020: £8 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 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.

	2021 £m	2020 £m
Current tax:		
Current tax receivable	**419**	263
Current tax payable	**(19)**	–
Deferred tax:		
Deferred tax liabilities	**(1,399)**	(1,036)

Movement in deferred tax liabilities

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 (see note A6.1) £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)

2020	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Acquisition of ReAssure businesses £m	L&G Part VII transfer £m	Other movements £m	31 December £m
Trading losses	14	15	–	–	–	1	30
Capital losses	–	14	–	22	–	–	36
Expenses and deferred acquisition costs carried forward	20	(90)	–	102	10	–	42
Provisions and other temporary differences	32	(27)	–	124	–	–	129
Non-refundable pension scheme surplus	(68)	(36)	(24)	–	–	–	(128)
Committed future pension contributions	12	(13)	1	–	–	–	–
Pension scheme deficit	14	1	(2)	–	–	–	13
Accelerated capital allowances	8	(1)	–	1	–	–	8
Intangibles	40	(3)	–	–	–	2	39
Acquired in-force business	(691)	123	–	(230)	–	–	(798)
Customer relationships	(33)	–	–	–	–	–	(33)
Unrealised gains	(199)	(65)	–	(72)	(28)	(1)	(365)
IFRS transitional adjustments	(24)	5	–	9	–	–	(10)
Other	2	2	–	(3)	–	–	1
	(873)	(75)	(25)	(47)	(18)	2	(1,036)

The standard rate of UK Corporation tax for the year ended 31 December 2021 is 19% (2020: 19%).

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

G8. Tax assets and liabilities continued

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.

	2021 £m	2020 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	55	52
Excess expenses and deferred acquisition costs	9	7
Intangibles	9	14
Deferred tax assets not recognised on capital losses[1]	29	42

1 These can only be recognised against future capital gains and have no expiry date.

There is a technical matter which is currently being discussed with HMRC in relation to the Legal and General Assurance Society Limited transfer to ReAssure Limited. These discussions are not sufficiently progressed at this stage for recognition of any potential tax benefit arising.

There is an ongoing tax dispute with HMRC in relation to the tax treatment of an asset formerly held by Guardian Assurance Limited (before the business was transferred to ReAssure Limited). The current tax liability includes an accrual for the total tax under dispute on the basis that there is sufficient risk that the tax treatment will not be accepted. The matter is scheduled to be heard in the First Tier Tribunal in May 2022.

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 progressing claims with HMRC during the course of 2021, 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 2021.

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 2021, 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*.

	2021 £m	2020 £m
Payables related to direct insurance contracts	**1,864**	1,669

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.

	2021 £m	2020 £m
At 1 January	**84**	84
Acquisition of ReAssure businesses	**–**	5
Leases incepted during the year	**27**	10
Termination of leases following the disposal of associated investment properties	**(1)**	–
Interest expense	**3**	4
Lease payments	**(16)**	(18)
Remeasurement of leases	**2**	(1)
At 31 December	**99**	84
Amount due within 12 months	**10**	11
Amount due after 12 months	**89**	73

The Group has elected not to apply the measurement requirements of IFRS 16 to its low value leases and as such costs of these leases are recognised on a straight-line basis as expense within administrative expenses. The expense for the year was £nil (2020: £1 million). 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.

	2021 £m	2020 £m
Accruals	**498**	452
Deferred income	**123**	69
Accruals and deferred income including amounts classified as held for sale	**621**	521
Less amounts classified as held for sale (see note A6.1)	**(54)**	–
At 31 December	**567**	521
Amount due for settlement after 12 months	**26**	12

Notes to the consolidated financial statements

Continued

G. Other statement of consolidated financial position notes continued

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.

	2021 £m	2020 £m
Investment broker balances	228	746
Property related payables	73	37
Investment management fees	77	3
Amount due to abrdn plc on deed of indemnity	–	68
Other payables	343	412
	721	1,266
Amount due for settlement after 12 months	–	1

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.

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 2021, PeLHL held £11 million (2020: £50 million) within debt securities and £14 million (2020: £13 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 2021, RML held £57 million (2020: £57 million) within debt securities and £1 million (2020: £2 million) within cash and cash equivalents in respect of this account. Further details of when these amounts may become payable to the pensions scheme are included in note G1.4.

The Pearl Pension Scheme funding agreement included certain covenants which restricted the transfer of funds within the Group. As detailed further in note G1.1, these covenants were terminated under the Commitment Agreement entered into with the Pearl Pension Scheme in November 2020.

H2. Acquisitions and portfolio transfers

H2.1 Acquisition of ReAssure businesses

On 22 July 2020, the Group acquired 100% of the issued share capital of ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for total consideration of £3.1 billion. The consideration consisted of £1.3 billion of cash, funded through the issuance of debt and own resources, and the issue of 277,277,138 shares ('the Acquisition Shares') to Swiss Re Group on 23 July 2020.

Pursuant to an agreement between Swiss Re Group and MS&AD Insurance Group Holdings ('MS&AD'), MS&AD transferred its entire shareholding in ReAssure Group plc prior to 22 July 2020 to the Swiss Re Group in consideration for the transfer of 144,877,304 of the Acquisition Shares at completion. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

H2.2 L&G portfolio transfer

On 6 December 2017, ReAssure Limited, a subsidiary of ReAssure Group plc, entered into an agreement to acquire the mature savings business of Legal and General Assurance Society ('LGAS'). The mature savings book consists of a block of unit-linked and with-profit business, predominantly comprising traditional insurance based pensions, savings and protection products which are closed and in run-off. On that date, ReAssure Limited entered into a risk transfer agreement ('RTA') under which it assumed the risk and rewards associated with the business for cash consideration of £650 million. The RTA was in-force as at the date of the Group's acquisition of the ReAssure businesses.

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H2. Acquisitions and portfolio transfers continued

H2.2 L&G portfolio transfer continued

On 7 September 2020, the Group completed a Part VII transfer of the mature savings liabilities and associated assets with LGAS, which resulted in the cancellation of the RTA. No further consideration was payable in respect of the Part VII transfer. This transfer was not deemed to be an acquisition of a business and consequently the requirements of IFRS 3 have not been applied.

The Part VII transfer directly resulted in an increase in net assets of £85 million, which included £110 million associated with reduced expense assumptions used for insurance contract liabilities arising upon migration of the business to the Group's operating model partially offset by the recognition of net liabilities transferred of £25 million. The gain arising upon the transfer has been recognised in the consolidated income statement.

H3. 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.

	2021 £m
Carrying value of net assets disposed of	
Financial assets	1,880
Reinsurers' share of insurance contract liabilities	730
Reinsurance receivables	5
Other receivables	9
Cash and cash equivalents	9
Insurance contract liabilities	(799)
Investment contract liabilities	(1,598)
Deferred tax liabilities	(4)
Other liabilities	(31)
Net assets disposed of	201
Cash consideration received	198
Less: transaction costs	(6)
Net consideration received	192
Foreign currency translation reserves recycled to the consolidated income statement	(14)
Loss on disposal	(23)

H4. Associates: Investment in UK Commercial Property Trust Limited ('UKCPT')

UKCPT is a property investment company which is domiciled in Guernsey and is admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange.

The Group's interest in UKCPT is held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to fair value movements in the Group's investment in UKCPT is limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

As at 31 December 2021, the Group held 44.5% (2020: 44.6%) of the issued share capital of UKCPT and the value of this investment, measured at fair value and included within financial assets, was £431 million (2020: £400 million). Management has concluded that the Group did not control UKCPT in either the current or comparative periods. The Group does not hold a unilateral power of veto in general meetings and voting is subject to certain restrictions in accordance with the terms of an existing relationship agreement it has with UKCPT.

Summary consolidated financial information (at 100%) for the UKCPT group is shown below:

	2021 £m	2020 £m
Non-current assets	1,508	1,183
Current assets	90	170
Non-current liabilities	(248)	(198)
Current liabilities	(25)	(28)
	1,325	1,127
Revenue	58	65
Profit/(loss) for the year after tax	236	(10)

H5. Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group has determined that all of its investments in collective investment schemes are structured entities. In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Group has assessed that it has interests in both consolidated and unconsolidated structured entities as shown below:

- Unit trusts;
- OEICs;
- SICAVs;
- Private Equity Funds;
- Asset backed securities;
- Collateralised Debt Obligations ('CDOs');
- Other debt structures; and
- Phoenix Group EBT.

The Group's holdings in the investments listed above are susceptible to market price risk arising from uncertainties about future values. Holdings in investment funds are subject to the terms and conditions of the respective fund's prospectus and the Group holds redeemable shares or units in each of the funds. The funds are managed by internal and external fund managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by fund managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

H5.1 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 £16 million (2020: £7 million).

As at the reporting date, the Group has no intention to provide financial or other support to any other consolidated structured entity.

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H5. Structured entities continued

H5.2 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.

	2021 Carrying value of financial assets £m	2020 Carrying value of financial assets restated £m
Equities	871	467
Collective investment schemes	85,995	89,248
Debt securities[1]	10,991	12,613
	97,857	102,328

1 Comparative figures have been restated to include £4,545 million debt securities that have been classified as structured entities.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the size of these structured entities are likely to be significantly higher than their carrying value.

Details of commitments to subscribe to private equity funds and other unlisted assets are included in note I5.

H6. 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)	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%

	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
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%
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%
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%
Northampton General Partner 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%

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H6. 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
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)[1]	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%
PGH (LC1) Limited (dormant company)[1]	London[15]		Ordinary Shares	100.00%
PGH (LC2) Limited (dormant company)	London[15]		Ordinary Shares	100.00%
PGH (LCA) Limited (dormant company)[1]	London[15]		Ordinary Shares	100.00%
PGH (LCB) Limited (dormant company)[1]	London[15]		Ordinary Shares	100.00%
PGH (MC1) Limited (dormant company)[1]	London[16]		Ordinary Shares	100.00%
PGH (MC2) Limited (dormant company)[1]	London[16]		Ordinary Shares	100.00%
PGH (TC1) Limited (dormant company)	London[15]		Ordinary Shares	100.00%
PGH (TC2) Limited (dormant company)	London[15]		Ordinary Shares	100.00%
PGH Capital plc (finance company – directly owned by the Company)	Dublin[17]		Ordinary Shares	100.00%
PGMS (Glasgow) Limited (investment company)[1]	Edinburgh[3]		Ordinary Shares	100.00%
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%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Phoenix 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)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER2 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER3 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix ER4 Limited (finance company)	Wythall[2]		Ordinary Shares	100.00%
Phoenix 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 (dormant company)	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%

Notes to the consolidated financial statements

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H. Interests in subsidiaries and associates continued

H6. 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
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%
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%

	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
The Pearl Martineau Limited Partnership		Lynch Wood[28]	Limited Partnership	100.00%
The Pearl Martineau Galleries Limited Partnership		Wythall[2]	Limited Partnership	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%
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	90.72%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[29]	OEIC, sub fund	96.68%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[29]	OEIC, sub fund	85.06%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[29]	OEIC, sub fund	88.79%
Janus Henderson Diversified Growth Fund		London[29]	OEIC, sub fund	72.35%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[29]	OEIC, sub fund	80.39%
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 Japan Tracker 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 North America Fund		Wythall[2]	Unit Trust	99.32%
PUTM Bothwell Sterling Government Bond Fund		Wythall[2]	Unit Trust	99.61%
PUTM Bothwell Euro Sovereign Fund		Wythall[2]	Unit Trust	85.03%
PUTM Bothwell Sterling Credit Fund		Wythall[2]	Unit Trust	99.94%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[2]	Unit Trust	100.00%

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H6. Group entities continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
PUTM Bothwell 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 UK Smaller Companies Fund		Wythall[2]	Unit Trust	100.00%
PUTM ACS North American Fund		Wythall[2]	Unit Trust	100.00%
ASI (SLI) Strategic Bond Fund		Edinburgh[7]	Unit Trust	88.84%
ASI (Standard Life) Multi-Asset Trust		Edinburgh[7]	Unit Trust	99.99%
ASI (Standard Life) European Trust II		Edinburgh[7]	Unit Trust	100.00%
ASI Emerging Markets Income Equity Fund		Edinburgh[7]	OEIC, sub fund	82.22%
ASI (SLI) Emerging Markets Equity Fund		Edinburgh[7]	OEIC, sub fund	96.86%
ASI Emerging Markets Local Currency Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	75.77%
ASI Europe Europe ex UK Ethical Equity Fund		Edinburgh[7]	OEIC, sub fund	76.15%
ASI (Standard Life) European Trust		Edinburgh[7]	Unit Trust	96.79%
ASI (Standard Life) Japan Trust		Edinburgh[7]	Unit Trust	80.65%
ASI (Standard Life) North American Trust		Edinburgh[7]	Unit Trust	99.52%
ASI (Standard Life) Pacific Basin Trust		Edinburgh[7]	Unit Trust	98.11%
ASI (Standard Life) Short Dated UK Government Bond Trust		Edinburgh[7]	Unit Trust	100.00%
ASI (Standard Life) Global Equity Trust II		Edinburgh[7]	Unit Trust	100.00%
ASI (Standard Life) UK Government Bond Trust		Edinburgh[7]	Unit Trust	100.00%
ASI (Standard Life) UK Corporate Bond Trust		Edinburgh[7]	Unit Trust	100.00%
ASI (Standard Life) Active Plus Bond Trust		Edinburgh[7]	Unit Trust	100.00%
ASI (Standard Life) International Trust		Edinburgh[7]	Unit Trust	99.86%
ASI (Standard Life) UK Equity General Trust		Edinburgh[7]	Unit Trust	99.71%
ASI Short Dated Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	86.71%
ASI MyFolio Managed I Fund		Edinburgh[7]	OEIC, sub fund	74.49%
ASI MyFolio Managed II Fund		Edinburgh[7]	OEIC, sub fund	74.46%
ASI MyFolio Managed III Fund		Edinburgh[7]	OEIC, sub fund	82.43%
ASI MyFolio Managed V Fund		Edinburgh[7]	OEIC, sub fund	74.34%
ASI Dynamic Multi Asset Growth Fund		Edinburgh[7]	OEIC, sub fund	96.09%
ASI American Income Equity Fund		Edinburgh[7]	OEIC, sub fund	73.43%
Aberdeen Standard SICAV III Global Short Duration Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	98.12%
Aberdeen Standard SICAV II Absolute Return Global Bond Strategies Fund		Luxembourg[30]	SICAV, sub fund	76.39%
Aberdeen Standard SICAV II European Equities Fund		Luxembourg[30]	SICAV, sub fund	99.06%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Aberdeen Standard SICAV II European Equity Unconstrained Fund		Luxembourg[30]	SICAV, sub fund	97.54%
Aberdeen Standard SICAV II Global Equities Fund		Luxembourg[30]	SICAV, sub fund	81.65%
Aberdeen Standard SICAV II European Government All Stocks Fund		Luxembourg[30]	SICAV, sub fund	99.99%
Aberdeen Standard SICAV II Japanese Equities Fund		Luxembourg[30]	SICAV, sub fund	93.93%
Aberdeen Standard SICAV II Global Bond Fund		Luxembourg[30]	SICAV, sub fund	94.19%
Aberdeen Standard SICAV II Global High Yield Bond Fund		Luxembourg[30]	SICAV, sub fund	82.95%
Aberdeen Standard SICAV II Global REIT Focus Fund		Luxembourg[30]	SICAV, sub fund	93.41%
Aberdeen Standard SICAV II China Equities Fund		Luxembourg[30]	SICAV, sub fund	78.71%
Aberdeen Standard SICAV II Global Emerging Markets Unconstrained Fund		Luxembourg[30]	SICAV, sub fund	100.07%
Aberdeen Standard SICAV II Global Emerging Markets Local CCY Debt Fund		Luxembourg[30]	SICAV, sub fund	91.43%
Aberdeen Standard SICAV II Emerging Market Debt Fund		Luxembourg[30]	SICAV, sub fund	98.39%
Aberdeen Standard SICAV III Dynamic Multi Asset Growth Fund		Luxembourg[30]	SICAV, sub fund	79.28%
ASIMT American Equity Unconstrained Fund		Edinburgh[7]	Unit Trust	79.70%
ASIMT Japan Fund		Edinburgh[7]	Unit Trust	76.69%
ASIMT Global REIT Fund		Edinburgh[7]	Unit Trust	81.94%
ASIMT Sterling Intermediate Credit Fund Launch Fund		Edinburgh[7]	Unit Trust	92.67%
Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 3 Fund		Luxembourg[31]	UCITS, sub fund	100.00%
Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund		Luxembourg[31]	UCITS, sub fund	100.00%
Aberdeen Standard Liquidity Fund (Lux) – Seabury Euro Liquidity 1 Fund		Luxembourg[31]	UCITS, sub fund	100.00%
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%
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	100.00%
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	70.08%
iShares 350 UK Equity Index Fund UK		London[36]	OEIC, sub fund	90.96%
Legal & General European Equity Income Fund		London[37]	Unit Trust	88.43%
Legal & General Growth Trust		London[37]	Unit Trust	71.19%
ASI Sustainable Index World Equity Fund		Edinburgh[7]	Unit Trust	100.00%
ASI Sustainable Index UK Equity Fund		Edinburgh[7]	Unit Trust	79.36%
ASI Phoenix Venture Capital Partners LP		Edinburgh[7]	Limited Partnership	100.00%
CF Macquaries Global Infrastructure Securities Fund		London[38]	OEIC, sub fund	77.08%
Quilter Investors Diversified Portfolio Fund		London[39]	OEIC, sub fund	93.01%

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H6. 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
Quilter Investors UK Equity Large-Cap Value Fund		London[39]	OEIC, sub fund	97.59%
Amundi Index Solutions – Amundi MSCI Emerging Ex China ESG Leaders Select		Luxembourg[40]	SICAV, sub fund	61.30%
Associates:				
UK Commercial Property Estates Limited (property investment company)	Guernsey[41]		Ordinary Shares	44.46%
UK Commercial Property GP Limited (dormant company)	London[42]		Ordinary Shares	44.46%
UK Commercial Property Holdings Limited (property investment company)	Guernsey[41]		Ordinary Shares	44.46%
UK Commercial Property Nominee Limited (dormant company)	London[42]		Ordinary Shares	44.46%
Moor House General Partner Limited		London[43]	Limited Partnership	33.30%
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%
Brixton Radlett Property 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	38.18%
Janus Henderson Institutional UK Index Opportunities Fund		London[29]	OEIC, sub fund	60.29%
Standard Life Capital Infrastructure I LP		Edinburgh[7]	Limited Partnership	26.30%
ASI (SLI) Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	30.28%
ASI Global Absolute Return Strategies Retail Acc		Edinburgh[7]	Unit Trust	60.78%
ASI Dynamic Distribution Fund		Edinburgh[7]	Unit Trust	62.43%
Standard Life Investments UK Real Estate Accumulation Feeder Fund		Edinburgh[7]	Unit Trust	47.85%
ASI Global Smaller Company Fund		Edinburgh[7]	Unit Trust	20.29%
Aberdeen Standard Global SICAV III Global Equity Impact Fund		Luxembourg[30]	SICAV, sub fund	46.90%
Aberdeen Standard SICAV II Total Return Credit Fund		Luxembourg[30]	SICAV, sub fund	24.22%
Aberdeen Standard Liquidity Fund (Lux) Sterling Fund		Luxembourg[31]	UCITS, sub fund	21.85%
ASI UK High Income Equity Fund		Edinburgh[7]	OEIC, sub fund	52.37%
ASI Global Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	44.98%
ASI High Yield Bond Fund		Edinburgh[7]	OEIC, sub fund	38.14%
ASI UK Opportunities Equity Fund		Edinburgh[7]	OEIC, sub fund	51.66%
ASI Investment Grade Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	31.98%
ASI UK Smaller Companies Fund		Edinburgh[7]	OEIC, sub fund	31.29%
ASI Europe ex UK Growth Equity Fund		Edinburgh[7]	OEIC, sub fund	31.58%
ASI Short Duration Global Inflation-Linked Bond Fund		Edinburgh[7]	OEIC, sub fund	27.06%
ASI UK Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	54.87%
ASI Ethical Corporate Bond Fund		Edinburgh[7]	OEIC, sub fund	52.72%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
ASI Global Real Estate Share Fund		Edinburgh[7]	OEIC, sub fund	45.32%
ASI Global Real Estate Fund		Edinburgh[7]	Unit Trust	46.22%
ASI MyFolio Market I Fund		Edinburgh[7]	OEIC, sub fund	43.60%
ASI MyFolio Market II Fund		Edinburgh[7]	OEIC, sub fund	45.66%
ASI MyFolio Market III Fund		Edinburgh[7]	OEIC, sub fund	54.48%
ASI MyFolio Market IV Fund		Edinburgh[7]	OEIC, sub fund	52.83%
ASI MyFolio Market V Fund		Edinburgh[7]	OEIC, sub fund	60.55%
ASI MyFolio Multi-Manager I Fund		Edinburgh[7]	OEIC, sub fund	53.32%
ASI MyFolio Multi-Manager II Fund		Edinburgh[7]	OEIC, sub fund	53.40%
ASI MyFolio Multi-Manager III Fund		Edinburgh[7]	OEIC, sub fund	62.97%
ASI MyFolio Multi-Manager IV Fund		Edinburgh[7]	OEIC, sub fund	57.45%
ASI MyFolio Multi-Manager V Fund		Edinburgh[7]	OEIC, sub fund	60.48%
ASI MyFolio Managed IV Fund		Edinburgh[7]	OEIC, sub fund	67.17%
Aberdeen Standard SICAV II Euro Smaller Companies Fund		Luxembourg[30]	SICAV, sub fund	23.29%
Aberdeen Standard SICAV II European Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	35.97%
Aberdeen Standard SICAV II Global Absolute Return Strategies Fund		Luxembourg[30]	SICAV, sub fund	42.94%
Aberdeen Standard SICAV II Global Corporate Bond Fund		Luxembourg[30]	SICAV, sub fund	71.23%
ASI American Unconstained Equity Fund		Edinburgh[7]	OEIC, sub fund	21.55%
Aberdeen Standard Liquidity Fund (Lux) Euro Fund		Luxembourg[31]	UCITS, sub fund	28.60%
ASI Europe ex UK Income Equity Fund		Edinburgh[7]	OEIC, sub fund	37.71%
ASI UK Income Unconstrained Equity Fund		Edinburgh[7]	OEIC, sub fund	52.60%
Brent Cross Partnership		London[43]	Limited Partnership	23.83%
Castlepoint LP		Birmingham[45]	Limited Partnership	34.81%
Gallions Reach Shopping Park Unit Trust		Jersey[32]	Unit Trust	100.00%
Aberdeen Standard UK Retail Park Trust		Jersey[46]	Unit Trust	56.60%
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	48.50%
AXA Global High Income Fund		London[48]	OEIC, sub fund	23.67%
AQR Global Risk Premium UCITS Fund		USA[49]	UCITS, sub fund	100.00%
Threadneedle Investment Funds ICVC – American Select Fund		London[50]	OEIC, sub fund	21.43%
Vanguard Investment Series plc – Vanguard Global Short-Term Corporate Bond Index Fund		Dublin[51]	UCITS, sub fund	38.99%
Vanguard FTSE U.K. All Share Index Unit Trust		London[52]	Unit Trust	25.38%
Vanguard Investment Series plc – Vanguard U.K. Short-Term Investment Grade Bond Index Fund		Dublin[51]	UCITS, sub fund	61.57%
Vanguard Common Contractual Fund – Vanguard U.S. Equity Index Common Contractual Fund		Dublin[51]	UCITS, sub fund	99.47%
Vanguard Investment Series plc – Vanguard Global Corporate Bond Index Fund		Dublin[51]	UCITS, sub fund	31.10%
Vanguard Investments Common Contractual Fund – Vanguard FTST Developed World ex UK Common Contractual Fund		Dublin[51]	UCITS, sub fund	99.84%
MI Somerset Global Emerging Markets Fund		London[53]	OEIC, sub fund	53.84%

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H6. 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
ASI Emerging Markets Equity Enhanced Index Fund		Edinburgh[7]	OEIC, sub fund	22.06%
Amundi UCITS Funds – Amundi Global Multi-Factor Equity Fund		Luxembourg[40]	UCITS, sub fund	65.07%
AB SICAV I – Emerging Markets Low Volatility Equity Portfolio		Luxembourg[30]	SICAV, sub fund	87.52%
Aberdeen Standard SICAV I – GDP Weighted Global Government Bond Fund		Luxembourg[31]	SICAV, sub fund	84.51%
Aberdeen Standard SICAV I – Global Bond Fund		Luxembourg[31]	SICAV, sub fund	91.69%
Aberdeen Standard 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	96.48%
HSBC ETFs PLC – HSBC FTSE EPRA NAREIT Developed UCITS ETF		Dublin[19]	UCITS, sub fund	42.34%
Invesco US Equity Fund		Oxfordshire[56]	OEIC, sub fund	27.68%
Legal & General Real Capital Builder Fund		London[37]	Unit Trust	67.38%
L&G Absolute Return Bond Plus Fund		Luxembourg[57]	SICAV, sub fund	57.79%
L&G Emerging Markets Bond Fund		Luxembourg[57]	SICAV, sub fund	33.89%
L&G Multi-Asset Target Return Fund		Luxembourg[57]	SICAV, sub fund	32.93%
Legal & General Asian Income Trust		London[37]	Unit Trust	60.75%
Legal & General Dynamic Bond Fund		London[37]	Unit Trust	52.43%
Legal & General Emerging Markets Government Bond (Local Currency) Index Fund		London[37]	Unit Trust	22.03%
Legal & General Emerging Markets Government Bond USD Index Fund		London[37]	Unit Trust	28.93%
Legal & General European Index Trust		London[37]	Unit Trust	24.25%
Legal & General Global Real Estate Dividend Index Fund		London[37]	Unit Trust	22.36%
Legal & General High Income Trust		London[37]	Unit Trust	47.75%
L&G Euro High Alpha Corporate Bond Fund		Luxembourg[57]	SICAV, sub fund	45.92%
Legal & General UK Equity Income Fund		London[37]	Unit Trust	24.97%
Legal & General UK Smaller Companies Trust		London[37]	Unit Trust	31.88%
Legal & General UK Special Situations Trust		London[37]	Unit Trust	58.68%
LGIM Sterling Liquidity Plus Fund		Dublin[51]	UCITS, sub fund	35.72%
Blackrock ICS Sterling Government Liquidity Fund		Dublin[58]	UCITS, sub fund	30.87%
Marks and Spencer Worldwide Managed Fund		London[34]	Unit Trust	42.05%
Quilter Investors Bond 2 Fund		London[39]	OEIC, sub fund	45.71%
Quilter Investors China Equity Fund		London[39]	OEIC, sub fund	22.00%
Quilter Investors Cirilium Moderate Blend Portfolio Fund		London[39]	OEIC, sub fund	34.30%
Quilter Investors Ethical Equity Fund		London[39]	Unit Trust	50.55%
Quilter Investors Global Equity Growth Fund		London[39]	OEIC, sub fund	42.26%
Quilter Investors Global Dynamic Equity Fund		London[39]	OEIC, sub fund	22.86%
Quilter Investors UK Equity Index Fund		London[39]	OEIC, sub fund	31.83%
BlackRock Market Advantage X		London[36]	UCITS, sub fund	42.68%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed Europe ex UK Common Contractual Fund		Dublin[51]	UCITS, sub fund	100.00%
Vanguard Investments Common Contractual Fund – Vanguard FTSE Developed World Common Contractual Fund		Dublin[51]	UCITS, sub fund	40.50%
Vanguard Investment Series plc – Vanguard U.K. Investment Grade Bond Index Fund		Dublin[51]	UCITS, sub fund	20.59%

	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
Baillie Gifford UK & Balanced Funds ICVC – Baillie Gifford UK and Worldwide Equity Fund		Edinburgh[59]	OEIC, sub fund	27.14%
Baillie Gifford Investment Funds II ICVC – Baillie Gifford UK Equity Core Fund		Edinburgh[59]	OEIC, sub fund	33.61%
ASI Short Dated Sterling Corporate Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	41.08%
ASI Global Inflation-Linked Bond Tracker Fund		Edinburgh[7]	OEIC, sub fund	24.02%
ASI Multi-Asset Fund		Edinburgh[7]	OEIC, sub fund	28.22%
Aberdeen Standard SICAV I – Diversified Income Fund		Luxembourg[31]	SICAV, sub fund	32.69%
ASI Diversified Growth Fund		London[11]	Unit Trust	26.01%
Amundi Index Solutions – Amundi MSCI China ESG Leaders Select		Luxembourg[40]	SICAV, sub fund	47.71%
Amundi Index Solutions – Amundi Global Corp SRI 1-5Y		Luxembourg[40]	SICAV, sub fund	29.32%
BNY Mellon Multi-Asset Global Balanced Fund		London[60]	UCITS, sub fund	22.65%
Aberdeen Japan Equity Fund		Edinburgh[7]	OEIC, sub fund	21.56%
ASI European Equity Tracker Fund		Edinburgh[7]	OEIC, sub fund	20.68%
ASI UK Responsible Equity Fund		Edinburgh[7]	OEIC, sub fund	27.26%
Central Saint Giles Unit Trust		Jersey[61]	Unit Trust	25.66%
Performance Retail Unit Trust		Jersey[62]	Unit Trust	50.10%

1 These subsidiaries have been granted audit exemption by parental guarantee.
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

Notes to the consolidated financial statements

Continued

H. Interests in subsidiaries and associates continued

H6. Group entities continued

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

The following subsidiaries were dissolved during the period. The subsidiaries were deconsolidated from the date of dissolution:
- PUTM European Unit Trust
- PUTM Bothwell Europe Fund
- ASI Financial Equity Fund A Inc

The following subsidiaries were either fully disposed of or holdings became insignificant to the Group. The subsidiaries were deconsolidated from either the date of disposal or from the date when the holdings became insignificant:
- Ark Life Assurance Company DAC
- ASI Japanese Growth Equity Fund
- North American Strategic Partners 2006 L.P.
- North American Strategic Partners (Feeder) 2006
- Standard Life Investments Global SICAV II – MyFolio Multi-Manager II Fund
- Standard Life Investments Global SICAV II – MyFolio Multi-Manager III Fund
- Standard Life Investments Global SICAV II – MyFolio Multi-Manager IV Fund
- Standard Life Investments Global SICAV II – MyFolio Multi-Manager V Fund
- Beresford Funds ICAV – Indexed Emerging Market Equity Fund
- Beresford Funds ICAV – Indexed Euro Large Cap Corporate Bond Fund
- Quilter Investors High Yield Bond Fund
- Legal & General Real Capital B L ACC

The Group no longer has significant holdings in the following undertakings:
- Standard Life UK Investments Real Estate Income Feeder Fund.
- BlackRock Market Advantage X
- AXA Sterling Index Linked Bond Fund
- AQR UCITS Funds – AQR Global Risk Parity C5 GBP (Acc)
- Legal & General European Trust
- Aviva Investors UK Property Feeder Inc Fund
- Jupiter Asset Management Series PLC – Jupiter Merian Global Equity Income Fund (IRL)
- Quilter Investors Monthly Income and Growth Portfolio Fund
- Quilter Investors Sterling Corporate Bond Fund
- Legal & General Ethical Trust
- L&G Emerging Markets Short Duration Bond Fund
- AXA Framlington FinTech Fund
- Quilter Investors Global Equity Index Fund
- Legal & General Authorised Contractual Scheme – L&G Real Income Builder Fund

I. Other notes

I1. Share-based payment

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Further details regarding the determination of the fair value of equity-settled share-based transactions are set out below.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each period end, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity.

I1.1 Share-based payment expense

The expense recognised for employee services receivable during the year is as follows:

	2021 £m	2020 £m
Expense arising from equity-settled share-based payment transactions	14	13

I1.2 Share-based payment expense

Long-Term Incentive Plan ('LTIP')

The Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares.

Assuming no good leavers or other events which would trigger early vesting rights, the 2019 LTIP awards are subject to performance conditions tied to the Group's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and Total Shareholder Return ('TSR'). The 2020 and 2021 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 TSR.

For all LTIP awards, a holding period applies so that any LTIP awards to Executive Committee members for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives. All awards have a contractual life of ten years from the date of grant.

2021 LTIP awards were granted on 12 March 2021 and 17 August 2021, and are expected to vest on 12 March 2024 and 17 August 2024 respectively. The 2018 LTIP awards vested on 21 March 2021. The 2019 awards will vest on 11 March 2022 and the 2020 awards will vest on 13 March 2023. 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 2019, 2020 and 2021 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2021 TSR performance condition	2020 TSR performance condition	2019 TSR performance condition
Share price (p)	738.6	586.3	694.0
Expected term (years)	3.0	3.0	3.0
Expected volatility (%)	30	20	20
Risk-free interest rate (%)	0.14	0.28	0.74
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

On 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 2020 LTIP awards.

Notes to the consolidated financial statements

Continued

I. Other notes continued

I1. Share-based payment continued

I1.2 Share-based payment expense continued

LTIP Buy Out awards were granted to the Group Chief Executive Officer in 2019, and finalised in 2020, following forfeiture of a proportion of his long-term incentive awards held with Aviva plc that had been awarded in March 2017 and May 2018. The Aviva March 2017 LTIP vested on 27 March 2020 with a performance outturn of 50% and the Aviva May 2018 LTIP vested on 26 March 2021 with a performance outturn of 0%.

On 12 March 2021 and 17 August 2021 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.

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.

On 21 December 2018 LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are discreet vesting periods for these awards and the final tranche of awards vested on 28 March 2021. These grants of shares were conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. The awards are granted on the same dates as the core 2019, 2020 and 2021 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 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 parent company. The grant of these shares is conditional on the employee remaining in employment with the Group for a period of three years from the date of grant. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting. Dividends will accrue for DBSS awards over the three year deferral period. The number of shares for all outstanding DBSS awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The 2021 DBSS was granted on 12 March 2021 and is expected to vest on 12 March 2024. The 2018 DBSS awards vested on 15 March 2021. The 2019 awards are expected to vest on 11 March 2022 and the 2020 awards are expected to vest on 13 March 2023.

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. All awards have a contractual life of three years and six months from the date of grant.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The 2021 sharesave options were granted on 9 April 2021.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave prior to the end of their three or five year period. All awards are required to be exercised within six months of the vesting date.

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 November 2016 and again in July 2018 following the Group's rights issues and the exercise price of these awards was also amended as a result of these issues.

The fair value of the options has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The following information was relevant in the determination of the fair value of the 2017 to 2021 UK sharesave options:

	2021 sharesave	2020 sharesave	2019 sharesave	2018 sharesave	2017 sharesave
Share price (£)	**7.486**	5.664	6.800	7.685	7.470
Exercise price (£) (Revised)	**5.890**	4.970	5.610	5.629	5.674
Expected life (years)	**3.25 and 5.25**	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**0.5 (for 3.25 year scheme) and 0.7 (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)	0.2 (for 3.25 year scheme) and 0.4 (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 (%)	**6.3**	8.2	6.8	6.5	6.3

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 (2020: 6.462)
- Exercise price (€): 6.880 (2020: 5.650)
- Risk-free rate (%): (0.4) (for 3.25 year scheme) and (0.3) (for 5.25 year scheme) (2020: (0.3) (for 3.25 year scheme) and (0.2) (for 5.25 year scheme))

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 2021, 471,543 Matching shares (including unrestricted shares) were conditionally awarded to employees (2020: 287,547).

Notes to the consolidated financial statements

Continued

I. Other notes continued

I1. Share-based payment continued

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 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	7,301,032	4,750,822	1,550,293

	Number of share options 2020		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	4,637,555	2,542,764	905,867
Granted during the year	2,634,386	2,233,597	588,925
Forfeited/cancelled during the year	(1,030,017)	(767,140)	–
Exercised during the year	(752,929)	(440,062)	(226,940)
Outstanding at the end of the year	5,488,995	3,569,159	1,267,852

The weighted average fair value of options granted during the year was £4.98 (2020: £3.88).

The weighted average share price at the date of exercise for the rewards exercised is £7.06 (2020: £6.74).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2021 is 5.5 years (2020: 5.6 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	2021 £m	2020 £m
(Loss)/profit for the year before tax		(430)	1,270
Non-cash movements in (loss)/profit for the period before tax			
Gain on completion of abrdn plc transaction	A6.1	(110)	–
Loss on disposal of Ark Life, excluding transaction costs	H3	17	–
Gain on acquisition		–	(372)
Gain on L&G Part VII portfolio transfer	H2.2	–	(85)
Fair value (gains)/losses on:			
Investment property	G4	(1,195)	52
Financial assets and derivative liabilities		(9,436)	(10,806)
Change in fair value of borrowings		(9)	(39)
Amortisation and impairment of intangible assets	G2	644	487
Change in unallocated surplus	F2	(106)	113
Share-based payment charge	I1.1	14	13
Finance costs	C5	242	234
Net interest expense on Group defined benefit pension scheme liability/asset	G1	37	29
Pension past service costs		–	2
Other costs of pension schemes	G1	6	5
Decrease in investment assets		6,738	8,254
(Increase)/decrease in reinsurance assets		(227)	708
Decrease in assets classified as held for sale		286	–
Increase in insurance contract and investment contract liabilities		6,354	6,261
Decrease in deposits received from reinsurers		(521)	(236)
(Decrease)/increase in obligation for repayment of collateral received		(1,762)	1,146
Decrease in liabilities classified as held for sale		(264)	–
Net (increase)/decrease in working capital		(1,100)	211
Other items:			
Contributions to defined benefit pension schemes	G1	(49)	(77)
Cash transferred under L&G Part VII portfolio transfer		–	146
Cash (utilised)/generated by operations		**(871)**	**7,316**

Notes to the consolidated financial statements

Continued

I. Other notes continued

I3. Capital management

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

This note sets out the Group's approach to managing capital and provides an analysis of Own Funds and SCR.

Risk and capital management objectives

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial and other assets and incurs insurance contract liabilities and financial and other liabilities. Financial and other assets principally comprise investments in equity securities, debt securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities principally comprise investment contracts, borrowings for financing purposes, derivative liabilities and net asset value attributable to unit holders.

The Group's risk management framework is described in the risk management commentary on pages 54 to 65 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'.

In accordance with the approvals received from the PRA, the Group currently operates a partial Internal Model to calculate Group SCR and following the approval of the harmonised internal model by the PRA during the year, all Group companies are within the scope of a single harmonised internal model, with the exception of the 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	2021 £bn	2020 £bn
PGH plc Eligible Own Funds	**14.8**	16.8
Remove Own Funds pertaining to unsupported with-profit funds and pension schemes	**(2.9)**	(3.2)
Group capital resources	**11.9**	13.6

Solvency II surplus – unaudited

An analysis of the PGH plc Solvency II surplus as at 31 December 2021 is provided in the business review section on pages 34 and 35. The Group has complied with all externally imposed capital requirements during the year.

Additional information on the PGH plc Own Funds, SCR and MCR is included in the additional capital disclosures on pages 318 and 319.

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*.

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, has been 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.

	Transactions 2021[1] £m	Balances outstanding 2021 £m	Transactions 2020 £m	Balances outstanding 2020 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	(4)	–	(3)	–
UK Commercial Property Trust Limited				
Dividend income	17	–	13	–
abrdn plc				
Investment management fees	(20)		(125)	(54)
Fees under Transitional Services Arrangement and material outsource agreements	(4)		(6)	(2)
Receipts under Transitional Services Arrangement	–		64	19
Net receipts under Client Service Proposition Agreement	–		16	36
Net payments under deed of indemnity	–		6	(68)
Dividend paid	–		(67)	–

1 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 have all been 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:

	2021 £m	2020 £m
Salary and other short-term benefits	5	5
Equity compensation plans	3	5

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 106 to 136.

During the year to 31 December 2021 key management personnel and their close family members contributed £291,546 (2020: £9,100) to Pensions and Savings products sold by the Group. At 31 December 2021, the total value of key management personnel's investments in Group Pensions and Savings products was £3,443,658 (2020: £2,842,300).

I5. Commitments

This note analyses the Group's other commitments.

	2021 £m	2020 £m
To subscribe to private equity funds and other unlisted assets	710	565
To purchase, construct or develop investment property and income strips	206	89
For repairs, maintenance or enhancements of investment property	12	26

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 11 March 2022, the Board recommended a final dividend of 24.8p per share for the year ended 31 December 2021 (2020: 24.1p). 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 2021 and will be charged to the statement of consolidated changes in equity in 2022.

The Group is continuing to monitor developments regarding the conflict between Russia and Ukraine. As at 31 December 2021, the Group had £23 million of shareholder exposure to Russia and Ukraine, which represents less than 0.1% of total shareholder assets. The exposure relating to assets held to back policyholder liabilities at 31 December 2021 is not considered to be material and the associated indirect shareholder exposure is minimal.

Nicholas Lyons
Andy Briggs
Rakesh Thakrar
Alastair Barbour
Karen Green
Hiroyuki Iioka
Wendy Mayall
John Pollock
Belinda Richards
Nicholas Shott
Kory Sorenson
Mike Tumilty

12 March 2022

Parent company financial statements

Statement of financial position

As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Property, plant and equipment	10	21	–
Investments in Group entities	11	10,031	10,090
Financial assets			
Loans and deposits	12	1,234	2,119
Derivatives	6	69	–
Debt securities	13	1	1
Collective investment schemes	13	690	194
Deferred tax	14	82	16
Prepayments and accrued income		58	–
Other amounts due from Group entities	20	616	295
Cash and cash equivalents	15	95	4
Total assets		12,897	12,719
Equity and liabilities			
Equity attributable to ordinary shareholders			
Share capital	3	100	100
Share premium	3	6	4
Merger relief reserve	3	1,819	1,819
Other reserve	3	(4)	(4)
Retained earnings		5,448	5,211
Total equity attributable to ordinary shareholders		7,369	7,130
Tier 1 Notes	4	411	411
Total equity		7,780	7,541
Liabilities			
Financial liabilities			
Borrowings	5	4,387	4,521
Derivatives	6	5	–
Obligations for repayment of collateral received	6	66	–
Other amounts due to Group entities	20	415	448
Provisions	7	92	122
Lease liabilities	8	21	–
Accruals and deferred income	9	131	87
Total liabilities		5,117	5,178
Total equity and liabilities		12,897	12,719

The notes identified numerically on pages 297 to 312 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 163 to 293.

Statement of changes in equity

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 year attributable to owners	–	–	–	–	728	728	–	728
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	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

For the year ended 31 December 2020

	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 2020	72	2	–	(4)	5,368	5,438	411	5,849
Total comprehensive income for the period attributable to owners	–	–	–	–	256	256	–	256
Issue of ordinary share capital, net of associated commissions and expenses	28	2	1,819	–	–	1,849	–	1,849
Dividends paid on ordinary shares (note B4)	–	–	–	–	(403)	(403)	–	(403)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	(23)	(23)	–	(23)
Credit to equity for equity-settled share-based payments (note I1)	–	–	–	–	13	13	–	13
At 31 December 2020	100	4	1,819	(4)	5,211	7,130	411	7,541

Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	16	897	(71)
Net cash flows from operating activities		897	(71)
Cash flows from investing activities			
Acquisition of ReAssure subsidiaries		–	(1,265)
Investment income		–	5
Interest received from Group entities		111	74
Capital contribution to subsidiary		(63)	(50)
Repayment of amounts due from Group entities		–	400
Net cash flows from investing activities		48	(836)
Cash flows from financing activities			
Proceeds from issuing ordinary shares	3	2	2
Proceeds from new shareholder borrowings, net of associated expenses	5	–	1,445
Repayment of shareholder borrowings	5	(122)	–
Ordinary share dividends paid		(482)	(403)
Interest paid on borrowings		(222)	(149)
Lease payments		(1)	–
Coupon paid on Tier 1 Notes		(29)	(29)
Net cash flows from financing activities		(854)	866
Net increase/(decrease) in cash and cash equivalents		91	(41)
Cash and cash equivalents at the beginning of the year		4	45
Cash and cash equivalents at the end of the year		95	4

Notes to the parent company financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis and under 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 2021 was £728 million (2020: £256 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 163 to 293, with the exception of the two policies detailed below.

The Company's accounting policy for financial assets is in accordance with the requirements of IFRS 9 *Financial Instruments*. As the Group has applied the temporary exemption from IFRS 9 available for entities whose activities are predominantly connected with insurance contracts, a different accounting policy has been adopted in the preparation of the consolidated financial statements. In addition, the Company has not adopted the Group's policy of hedge accounting.

Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note. Each note within the Company financial statements makes reference to the note to the consolidated financial statements containing the applicable accounting policy. The accounting policy in relation to foreign currency transactions is included within note A2.1 to the consolidated financial statements.

Investments in Group entities

Investments in Group entities are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment is impaired by assessing whether any indicators of impairment exist. If objective evidence of impairment exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the Group entity and its carrying value and recognises the amount as an expense in the income statement.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:
- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in notes 12 and 15.

Equities, 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 detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL, are recognised in the income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance.

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 2021, the Company issued 303,914 shares (2020: 440,062 shares) with a premium of £2 million (2020: £2 million) in order to satisfy its obligations to employees under the Group's sharesave schemes.

On 22 July 2020, the Company acquired ReAssure Group plc and as part consideration for the acquisition issued 277,277,138 new ordinary shares at par to Swiss Re Group, of which 144,877,304 shares were subsequently transferred to MS&AD Insurance Group Holdings ('MS&AD'). The equity stake in the Company held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

The Company has used the relief in section 612 of the Companies Act 2006 to represent the difference between the consideration and the nominal value of the shares issued of £1,819 million in a merger relief reserve as opposed to in share premium. A merger relief reserve is required to be used as a result of the company having issued equity shares as partial consideration for the shares of the ReAssure plc Group 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.

	2021 £m	2020 £m
Issued and fully paid:		
999.5 million ordinary shares of £0.10 each (2020: 999.2 million)	100	100

2021	Number	£
Shares in issue at 1 January 2021	999,232,144	99,923,214
Ordinary shares issued in the period	303,914	30,391
Ordinary shares in issue at 31 December 2021	999,536,058	99,953,605

2020	Number	£
Shares in issue at 1 January 2020	721,514,944	72,151,494
Ordinary shares issued to Swiss Re and MS&AD	277,277,138	27,727,714
Other ordinary shares issued in the period	440,062	44,006
Ordinary shares in issue at 31 December 2020	999,232,144	99,923,214

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.

	2021 £m	2020 £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, following a trigger event linked to Solvency II, the capital position was revised. 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 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	
	2021 £m	2020 £m	2021 £m	2020 £m
£428 million subordinated loans (note a)	435	436	498	517
£450 million Tier 3 subordinated notes (note b)	449	449	457	470
US $500 million Tier 2 bonds (note c)	337	329	408	416
€500 million Tier 2 notes (note d)	389	410	490	516
£300 million senior unsecured bond (note e)	–	123	–	125
Loan due to Standard Life Assurance Limited (note f)	300	294	300	294
US $750 million Contingent Convertible Tier 1 notes (note g)	551	545	581	585
£500 million Tier 2 notes (note h)	485	484	593	622
US $500 million Fixed Rate Reset Tier 2 notes (note i)	368	364	389	395
£500 million 5.867% Tier 2 subordinated notes (note j)	550	556	598	620
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes (note k)	266	272	269	280
£250 million 4.016% Tier 3 subordinated notes (note l)	257	259	264	266
Total borrowings	4,387	4,521	4,847	5,106
Amount due for settlement after 12 months	4,387	4,398		

a. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £428 million subordinated notes due 2025 at a coupon of 6.625%, which were initially recognised at fair value of £439 million.

b. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £450 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%, which were initially recognised at fair value of £447 million.

c. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%, which were initially recognised at fair value of £349 million.

d. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the €500 million Tier 2 notes due 2029 with a coupon of 4.375%, which were initially recognised at fair value of £407 million.

e. On 18 June 2019, the Company was substituted in place of Old PGH as issuer of the £300 million 7 year senior unsecured bond due 2021 at an annual coupon of 5.75% with principal outstanding of £122 million, which was initially recognised at fair value of £131 million. On 7 July 2021, the senior unsecured bond matured and the outstanding balance of £122 million was repaid in full along with the final coupon of £7 million.

f. 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 during the year interest of £6 million (2020: £6 million) was capitalised.

g. On 29 January 2020, the Company issued US $750 million fixed rate reset perpetual restricted Tier 1 contingent convertible notes (the 'contingent convertible Tier 1 Notes') which are unsecured and subordinated. The contingent convertible Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company. The contingent convertible Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.625% per annum up to the 'First Reset Date' of 26 April 2025. Thereafter the fixed rate of interest will be reset on the First Reset Date and on each fifth anniversary of this date by reference to the sum of the yield of the Constant Maturity Treasury ('CMT') rate (based on the prevailing five year US Treasury yield) plus a margin of 4.035%, being the initial credit spread used in pricing the notes. Interest is payable on the contingent convertible Tier 1 Notes semi-annually in arrears on 26 April and 26 October. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter. Further details are contained in note E5 to the consolidated financial statements.

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.

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.

j. On 22 July 2020, the Company was substituted in place of ReAssure Group plc as issuer of the £500 million 5.867% Tier 2 Subordinated Notes. These notes have a maturity date of 13 June 2029 and were initially recognised at their fair value of £559 million. 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, the Company was substituted in place of ReAssure Group plc as issuer of the £250 million fixed rate reset callable Tier 2 subordinated notes. The £250 million fixed rate reset callable Tier 2 subordinated notes have a maturity date of 13 June 2029 and were initially recognised at their fair value of £275 million. The fair value adjustment will be amortised over the remaining life of the notes. The notes include an issuer par call right exercisable on 13 June 2024. Interest is payable semi-annually in arrears on 13 June and 13 December. These notes initially bear interest at a rate of 5.766% on the principal amount and the rate of interest will reset on 13 June 2024, and on each interest payment date thereafter, to a margin of 5.17% plus the yield of a UK Treasury Bill of similar term.

l. On 22 July 2020, the Company was substituted in place of ReAssure Group plc as issuer of the £250 million 4.016% Tier 3 subordinated notes. The notes have a maturity date of 13 June 2026 and were initially recognised at their fair value of £259 million. The fair value adjustment is being amortised over the remaining life of the notes. Interest is payable semi-annually in arrears on 13 June and 13 December.

m. 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 2021.

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 movements	Non-cash movements				
	At 1 January 2021 £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	4,430

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).

		Cash movements	Non-cash movements				
	At 1 January 2021 £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	437	–	–	–	(1)	–	436
£450 million Tier 3 subordinated notes	448	–	–	–	1	–	449
US $500 million Tier 2 bonds	334	–	–	(10)	5	–	329
€500 million Tier 2 notes	385	–	–	22	3	–	410
£300 million senior unsecured bond	128	–	–	–	(5)	–	123
Loan due to Standard Life Assurance Limited	288	–	–	–	–	6	294
US $750 million Contingent Convertible Tier 1 notes	–	566	–	(23)	2	–	545
£500 million Tier 2 notes	–	483	–	–	1	–	484
US $500 million Fixed Rate Reset Tier 2 notes	–	396	–	(32)	–	–	364
£500 million 5.867% Tier 2 subordinated notes	–	–	559	–	(3)	–	556
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	–	–	275	–	(3)	–	272
£250 million 4.016% Tier 3 subordinated notes	–	–	259	–	–	–	259
	2,020	1,445	1,093	(43)	–	6	4,521

1 Loans issued via substitution are a non-cash flow item as consideration was the transfer of loans and deposits (refer to note 12).

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	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Cross currency swaps	48	–	5	–
Foreign currency swaps	21	–	–	–
	69	–	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 OTC derivative assets is £69 million (2020: £nil) of which credit risk of £66 million (2020: £nil) 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 restructuring provision of £159 million, of which £31 million was subsequently released in 2020. During the year, £17 million (2020: £19 million) of the restructuring provision was utilised, resulting in a provision as at 31 December 2021 of £92 million (2020: £109 million). The remaining provision is expected to be utilised within the next two years.

A further provision of £13 million was recognised for amounts payable to abrdn plc, in respect of obligations arising under agreements entered into in relation to the acquisition of the Standard Life Assurance businesses in 2018. Following completion of the agreement with abrdn plc to simplify the arrangements of the Strategic Partnership, the balance of £13 million was released during the year.

Further details are included in note G7 to the consolidated financial statements.

Notes to the parent company financial statements

Continued

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.

	2021 £m
At 1 January	–
Inception of lease	22
Lease payments	(1)
At 31 December	**21**
Amount due within 12 months	2
Amount due after 12 months	19

9. Accruals and deferred income

The accounting policy for accruals and deferred income is included in note G11 to the consolidated financial statements.

	2021 £m	2020 £m
Accruals and deferred income	131	87
Amount due for settlement after 12 months	–	–

10. Property, plant and equipment

The accounting policy is included in note G3 to the consolidated financial statements.

The right-of-use asset relates to office premises leased at 20 Old Bailey, London. Depreciation is being charged on a straight-line basis over the term of the lease.

	Property Right-of-use asset 2021 £m	Total Property, Plant and Equipment 2021 £m
Cost or valuation		
At 1 January 2021	–	–
Additions	22	22
At 31 December 2021	22	22
Depreciation		
At 1 January 2021	–	–
Depreciation	(1)	(1)
At 31 December 2021	(1)	(1)
Carrying amount at 31 December 2021	21	21

11. Investments in Group entities

	2021 £m	2020 £m
Cost		
At 1 January	**14,236**	11,074
Additions	**63**	3,162
Acquisition Price Adjustment	**(79)**	–
At 31 December	**14,220**	14,236
Impairment		
At 1 January	**(4,146)**	(4,146)
Charge for the year	**(43)**	–
At 31 December	**(4,189)**	(4,146)
Carrying amount		
At 31 December	**10,031**	10,090

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.

On 22 July 2020, the Company acquired ReAssure Group plc from Swiss Re Finance Midco (Jersey) Limited, an indirect subsidiary of Swiss Re Limited, for a total consideration of £3,112 million. The consideration consisted of £1,265 million cash and the issue of 277,277,138 shares to Swiss Re Group on 23 July 2020, of which 144,877,304 shares were subsequently transferred to MS&AD Insurance Group Holdings. The equity stake in the Group held by Swiss Re Group and MS&AD was valued at £1,847 million, based on the share price at that date.

During the year ended 31 December 2020, a capital contribution of £50 million was paid into SLIDAC which was provided in order to strengthen its capital position following adverse market conditions experienced during that year. This increased the carrying value of the Company's investment in SLIDAC to £582 million.

Where indicators of impairment are identified, the carrying value of the Company's investments in its subsidiaries is tested for impairment at the period end. The value in use is the recoverable amount determined by using the present value of the future cash flows of the Company's subsidiaries including the in-force long-term business, the asset management business and the service company. The cash flows used in an impairment calculation are consistent with those adopted by management in the operating plan and, beyond the period of this plan, reflect the anticipated run-off of the in-force life insurance business. Future cash flows are valued using discount rates which reflect the risks inherent to each cash flow. For other subsidiaries, the value in use is determined using net asset values.

As at 31 December 2021 and 31 December 2020, 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. During the year ended 31 December 2021, an impairment charge of £43 million (2020: £nil) was recognised to align the carrying amount of certain investments in subsidiaries to their recoverable amount.

For a list of principal Group entities, refer to note H6 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		Fair value	
	2021 £m	2020 £m	2021 £m	2020 £m
Loans due from Phoenix Life Holdings Limited (note a)	1,221	1,214	1,370	1,403
Loan due from Phoenix Group Employee Benefit Trust (note b)	13	6	13	6
Loan due from ReAssure Group plc (note c)	–	704	–	710
Loans and deposits due from Group entities	1,234	1,924	1,383	2,119
Fixed term deposits (note d)	–	195	–	195
Total loans and deposits	1,234	2,119	1,383	2,314

	2021 £m	2020 £m
Amounts due after 12 months	784	1,924

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 2021, the carrying value of the loan was £435 million (2020: £437 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 matures on 20 July 2022. This loan was initially recognised at fair value of £447 million and is accreted to par over the period to 2022. At 31 December 2021, the carrying value of the loan was £450 million (2020: £449 million).

   On 12 December 2018, the Company was assigned a US $500 million loan by PLHL due 2027 with a coupon of 5.375%. This loan was initially recognised at fair value of £349 million and is accreted to par over the period to 2027. Movement in foreign exchange during the period decreased the carrying value by £4 million (2020: £10 million). At 31 December 2021, the carrying value of the loan was £336 million (2020: £328 million).

b) On 18 June 2019, the Company was assigned an interest free facility arrangement with Phoenix Group Employee Benefit Trust ('EBT'). As at 31 December 2021, the carrying value of the loan was £13 million (2020: £6 million). In 2021, an additional £17 million (2020: £7 million) was drawn down against this facility. 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. Following the vesting of awards in 2021, £10 million (2020: £8 million) of the loan was written off.

c) On 22 July 2020, the Company entered into a £1,099 million loan agreement with ReAssure Group plc, a subsidiary undertaking, as consideration for the transfer of subordinated loan notes into the Company. The loan accrued interest at a rate of 6 month LIBOR plus 1.30% and was due to mature on 31 December 2025. During the year, the Company received full repayment of the outstanding loan balance of £699 million plus interest capitalised to date. As at 31 December 2021, the carrying value of the loan was £nil (2020: £704 million which also included £5 million of interest previously capitalised).

d) Fixed term deposits include holdings in bank deposits with an initial maturity of more than 3 months at the date the deposit was made.

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

	2021 £m	2020 £m
Financial assets at fair value through profit or loss		
Derivatives	69	–
Debt securities	1	1
Collective investment schemes	690	194
	760	195
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 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

Year ended 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Debt securities	–	–	1	1
Collective investment schemes	194	–	–	194
	194	–	1	195

There were no transfers between levels in either 2021 or 2020.

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.

Notes to the parent company financial statements

Continued

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 2021 £m	Credit for the year £m	31 December 2021 £m
Provisions and other temporary differences	16	66	82

	1 January 2020 £m	Credit for the year £m	31 December 2020 £m
Provisions and other temporary differences	15	1	16

The standard rate of UK corporation tax for the accounting period is 19% (2020: 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.

15. Cash and cash equivalents

The accounting policy for cash and cash equivalents is included in note G6 to the consolidated financial statements.

	2021 £m	2020 £m
Bank and cash balances	95	4

16. Cash flows from operating activities

	2021 £m	2020 £m
Profit for the year before tax	661	222
Non-cash movements in profit for the year before tax:		
Impairment of loan due from subsidiary	10	8
Impairment of investment in subsidiaries	43	–
Investment income	(111)	(78)
Finance costs	274	189
Fair value gains on financial assets	(62)	(45)
Foreign exchange movement on borrowings at amortised cost	(11)	(43)
Share-based payment charge	14	13
Depreciation	1	–
Decrease/(increase) in investment assets	385	(116)
Net increase in working capital	(307)	(221)
Cash generated/(utilised) by operations	**897**	**(71)**

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.

At 31 December 2021, total capital was £7,780 million (2020: £7,541 million). The movement in capital in the period comprises the total comprehensive income for the period attributable to owners of £728 million (2020: £256 million), dividends paid of £482 million (2020: £403 million), coupon paid on Tier 1 Notes, net of tax relief of £23 million (2020: £23 million), credit to equity for equity-settled share-based payments of £14 million (2020 £13 million) and issue of ordinary share capital of £2 million (2020: £1,849 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

Notes to the parent company financial statements

Continued

17. Capital and risk management continued

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:

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

2020	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and deposits (note 12)	N/A	Performing	12 month ECL	2,119	–	2,119
Other amounts due from Group entities (note 20)	N/A	Performing	12 month ECL	295	–	295
Cash and cash equivalents (note 15)	A	N/A	12 month ECL	4	–	4

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also, forward-looking analysis.

Loans and deposits – The Company is exposed to credit risk relating to loans and deposits from other Group companies, which are considered 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 are held with bank and financial institution counterparties which have investment grade 'A' credit ratings. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and, there being no history of default, 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 106 to 136 of the Annual Report and Accounts.

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.

On 23 February 2021, the Group entered into a new agreement with abrdn plc to simplify the arrangements of the strategic partnership. As part of the acquisition of the brand, the relevant marketing, distribution and data team members were transferred to the Group. Consequently, the Client Service and Proposition Agreement entered into between the two groups following the acquisition of the Standard Life businesses in 2018 has been significantly amended prior to being dissolved. 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 ended 31 December 2021, the Company entered into the following transactions with related parties, including transactions with abrdn plc to 23 February 2021.

	2021 £m	2020 £m
Dividend income from other Group entities	957	400
Interest income from other Group entities	111	73
	1,068	473
Impairment of loan due from subsidiary	–	8
Impairment of investment in subsidiaries	43	–
Expense to other Group entities	205	119
Interest expense to other Group entities	43	7
	248	134
Dividends paid to abrdn plc	–	67

Notes to the parent company financial statements
Continued

20. Related party transactions continued

Amounts due from related parties at the end of the year:

	2021 £m	2020 £m
Loans due from Group entities	1,234	1,924
Interest accrued on loans due from Group entities	35	–
Other amounts due from Group entities	616	295
	1,885	2,219
Amount due for settlement after 12 months	784	1,924

Amounts due to related parties at the end of the year:

	2021 £m	2020 £m
Loans due to Group entities	300	294
Interest accrued on loans due to Group entities	14	–
Other amounts due to Group entities	415	448
	729	742
Amount due for settlement after 12 months	300	294

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.

Nicholas Lyons
Andy Briggs
Rakesh Thakrar
Alastair Barbour
Karen Green
Hiroyuki Iioka
Wendy Mayall
John Pollock
Belinda Richards
Nicholas Shott
Kory Sorenson
Mike Tumilty

12 March 2022

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, the assets held by the non-controlling interests in consolidated collective investment schemes and assets in consolidated funds held within the disposal group.

The following table provides an overview of the exposure by asset category of the Group's life companies' shareholder and policyholder funds:

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[4]	1,491	–	–	–	1,491
Debt securities – UK local authority loans and US municipal bonds[5]	1,069	–	10	3	1,082
Debt securities – private placements[6]	3,978	1	179	33	4,191
Debt securities – loans guaranteed by export credit agencies[7]	208	–	–	–	208
Debt securities – equity release mortgages[4]	4,214	–	–	–	4,214
Debt securities – commercial real estate loans[4]	1,317	–	–	–	1,317
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[4]	–	–	–	886	886
Other investments[8]	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[9]	–	–	–	(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[9]					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 This information is presented on a look-through basis to underlying funds where available.
4 All infrastructure and commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.
5 Total UK local authority loans and US municipal bonds of £1,082 million include £917 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total private placements of £4,191 million include £3,120 million classified as Level 3 debt securities in the fair value hierarchy.
7 Total loans guaranteed by export credit agencies of £208 million include £159 million classified as Level 3 debt securities in the fair value hierarchy.
8 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.
9 See note A6.1 to the consolidated financial statements for further details.

Additional life company asset disclosures

Continued

31 December 2020

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total[3] £m
Cash and cash equivalents	5,908	1,854	8,336	10,246	26,344
Debt securities – gilts and foreign government bonds	6,999	386	22,295	14,458	44,138
Debt securities – other government and supranational	2,257	294	2,220	7,815	12,586
Debt securities – infrastructure loans[4]	1,564	–	–	–	1,564
Debt securities – UK local authority loans and US municipal bonds[5]	696	–	–	–	696
Debt securities – private placements[6]	3,276	1	262	51	3,590
Debt securities – loans guaranteed by export credit agencies[4]	54	–	–	–	54
Debt securities – equity release mortgages[4]	3,484	–	–	–	3,484
Debt securities – commercial real estate loans[4]	1,075	–	–	–	1,075
Debt securities – other debt securities	20,371	1,587	18,322	24,412	64,692
	39,776	2,268	43,099	46,736	131,879
Equity securities	113	45	19,621	106,120	125,899
Property investments	81	30	2,054	6,409	8,574
Income strips[4]	–	–	–	692	692
Other investments[7]	923	711	4,916	10,009	16,559
At 31 December 2020	46,801	4,908	78,026	180,212	309,947
Cash and cash equivalents in Group holding companies					1,055
Cash and financial assets in other Group companies					776
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,170
Total Group consolidated assets					315,948
Comprised of:					
Investment property					7,128
Financial assets					298,823
Cash and cash equivalents					10,998
Derivative liabilities					(1,001)
					315,948

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 This information is presented on a look-through basis to underlying funds where available.
4 All infrastructure loans, commercial real estate loans, equity release mortgages, income strips and loans guaranteed by export credit agencies are classified as Level 3 debt securities in the fair value hierarchy.
5 Total UK local authority loans of £696 million include £646 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total private placements of £3,590 million include £2,297 million classified as Level 3 debt securities in the fair value hierarchy.
7 Includes policy loans of £10 million, other loans of £344 million, net derivative assets of £6,083 million, reinsurers' share of investment contracts of £9,559 million and other investments of £563 million.

The following table provides a reconciliation of the total life company assets to the Assets under Administration ('AUA') as at 31 December 2021 detailed in the Business Review on page 37:

	2021 £bn	2020 £bn
Total Life Company assets excluding amounts classified as held for sale	**298.6**	309.9
Off-balance sheet AUA[1]	**11.8**	37.5
Less: Standard Life Trustee Investment Plan assets[2]	**–**	(9.7)
Assets Under Administration	**310.4**	337.7

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.
2 Assets held within the Standard Life Trustee Investment Plan product are excluded from AUA as materially all profits accrue to third party investment managers. As at 31 December 2021, these assets form part of the disposal group classified as held for sale (see note A6.1 for further details).

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 2021	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	177	354	970	43	1,544
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	315	986	352	–	1,911
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	1,345	1,562	2	3,055
Sovereign, sub-sovereign and supranational[3]	1,465	9,983	827	109	–	12,384
Real estate	27	211	3,386	727	254	4,605
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	–	–	128	1,196	167	1,491
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 UK local authority loans and US municipal bonds, £165 million reported as private placements and £82 million reported as loans guaranteed by export credit agencies in the summary table on page 313.
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 2020	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	148	426	1,104	47	1,725
Basic materials	–	–	201	40	–	241
Consumer, cyclical	12	484	656	347	97	1,596
Technology and telecoms	175	288	719	782	–	1,964
Consumer, non-cyclical	270	309	1,239	549	–	2,367
Structured finance	–	–	56	–	–	56
Banks[2]	857	805	3,328	695	66	5,751
Financial services	92	279	350	246	2	969
Diversified	–	7	31	–	–	38
Utilities	28	130	2,153	1,660	–	3,971
Sovereign, sub-sovereign and supranational[3]	1,421	8,149	483	85	11	10,149
Real estate	37	171	3,016	509	126	3,859
Investment companies	33	193	–	4	–	230
Insurance	–	573	463	84	12	1,132
Oil and gas	–	212	350	83	–	645
Collateralised debt obligations	–	8	–	–	–	8
Private equity loans	–	–	22	5	–	27
Infrastructure	–	25	388	1,004	147	1,564
Equity release mortgages[4]	2,034	657	626	149	18	3,484
At 31 December 2020	4,959	12,438	14,507	7,346	526	39,776

1 Includes non-rated holdings of £117 million which have been assessed as having a low credit risk.
2 The £5,751 million total shareholder exposure to bank debt comprised £4,316 million senior debt and £1,435 million subordinated debt.
3 Includes £696 million reported as UK local authority loans, £171 million reported as private placements and £26 million reported as loans guaranteed by export credit agencies in the summary table on page 314.
4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.

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 2021 £m	Corporate and other 2021 £m	Total 2021 £m	Sovereign, sub-sovereign and supranational 2020 £m	Corporate and other 2020 £m	Total 2020 £m
UK	10,216	17,076	27,292	8,077	17,577	25,654
Supranationals	800	–	800	660	–	660
USA	340	4,881	5,221	217	5,614	5,831
Germany	112	418	530	188	962	1,150
France	230	1,207	1,437	339	1,440	1,779
Netherlands	117	769	886	182	728	910
Italy	–	171	171	–	213	213
Ireland	–	57	57	–	155	155
Spain	26	105	131	–	183	183
Luxembourg	60	22	82	86	1	87
Belgium	39	111	150	31	152	183
Australia	1	503	504	–	577	577
Canada	99	303	402	65	275	340
Mexico	2	192	194	6	219	225
Other – non-Eurozone[1]	288	1,579	1,867	189	1,238	1,427
Other – Eurozone	54	280	334	109	293	402
Total shareholder debt securities	12,384	27,674	40,058	10,149	29,627	39,776

1 Includes £2 million sovereign debt and £21 million corporate and other debt with exposure to Russia. There was no exposure to either Ukraine or Belarus.

Additional capital disclosures

PGH PLC Solvency II Surplus

The PGH plc surplus at 31 December 2021 is £5.3 billion (2020: £5.3 billion).

	31 December 2021 Estimated £bn	31 December 2020 £bn
Own Funds	14.8	16.8
SCR	(9.5)	(11.5)
Surplus	**5.3**	5.3

Calculation of group solvency

In 2020, the Group used two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method). Method 2 was used for all entities within the Standard Life Assurance businesses acquired in 2018 and Method 1 was used for all other entities of the Group (including the ReAssure entities acquired in 2020). Following the approval of the harmonised internal model by the PRA during the year and as referred to in Article 230 of the Solvency II directive, the Group now 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 2021 Estimated £bn	31 December 2020 £bn
Tier 1 – Unrestricted	9.9	11.7
Tier 1 – Restricted	1.1	1.1
Tier 2	2.9	3.2
Tier 3	0.9	0.8
Total Own Funds	**14.8**	16.8

PGH plc's unrestricted Tier 1 capital accounts for 67% (2020: 70%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Restricted Tier 1 capital comprises the contingent convertible Tier 1 Notes issued in January 2020 and the Tier 1 Notes issued in April 2018, the terms of which enable the instruments to qualify as restricted Tier 1 capital for regulatory reporting purposes.

Tier 2 capital is comprised of subordinated notes whose terms enable them to qualify as Tier 2 capital for regulatory reporting purposes.

Tier 3 items include the Tier 3 subordinated notes of £0.7 billion (2020: £0.7 billion) and the deferred tax asset of £0.2 billion (2020: £0.1 billion).

Breakdown of SCR

The Group operates one single harmonised 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 the 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 2021 Estimated		31 December 2020		
	Harmonised Internal Model %	ReAssure and SLIDAC Standard Formula %	Phoenix Internal Model %	Standard Life Internal Model %	ReAssure and SLIDAC Standard Formula %
Longevity	22	21	27	18	21
Credit	18	21	23	12	24
Persistency	20	22	12	25	20
Interest rates	9	8	7	6	10
Operational	6	3	4	8	4
Swap spreads	3	–	3	1	–
Property	4	1	10	1	–
Other market risks	12	14	3	16	10
Other non-market risks	6	10	11	13	11
Total pre-diversified SCR	100	100	100	100	100

The principal risks of the Group are described in detail in note E6 and F4 in the IFRS consolidated financial statements.

Minimum capital requirements

Under the Solvency II regulations, the Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. For Groups this is referred to as the Minimum Consolidated Group SCR ('MGSCR').

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or €3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

The MGSCR represents the sum of the underlying insurance companies' MCRs of the Group. The Group wholly uses Method 1 (the default accounting based consolidation method) to calculate Group solvency following the approval of the harmonised 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 2021 is £2.9 billion (2019: Method 1 £1.9 billion and Method 2 £1.4 billion).

PGH plc's Eligible Own Funds to cover MGSCR is £11.5 billion (2020: Method 1 £8.3 billion and Method 2 £4.9 billion) leaving an excess of Eligible Own Funds over MGSCR of £8.6 billion (2020: Method 1 £6.4 billion and Method 2 £3.5 billion), which translates to an MGSCR coverage ratio of 393% (2020: Method 1: 431% and Method 2: 359%).

Alternative performance measures

The Group assesses its financial performance based on a number of measures. Some measures are management derived measures of historic or future financial performance, position or cash flows of the Group; which are not defined or specified in accordance with relevant financial reporting frameworks such as International Financial Reporting Standards ('IFRS') or Solvency II.

These measures are known as Alternative Performance Measures ('APMs').

APMs are disclosed to provide stakeholders with further helpful information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to IFRS and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below. Further discussion of these measures can be found in the business review from page 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 consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 314.
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. Equity is defined as the sum of equity attributable to the owners of the parent, non-controlling interests, the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 158 and 159 and the analysis of borrowings note on page 206.
Incremental long-term cash generation	Incremental long-term cash generation represents the operating companies' cash generation that is expected to arise in future years as a result of new business transacted in the current period within our UK Open and Europe segments. It excludes any costs associated with the acquisition of the new business.	This measure provides an indication of the Group's performance in delivering new business growth to offset the impact of run-off of the Group's Heritage business and to bring sustainability to future cash generation.	Incremental long-term cash generation is not directly reconcilable to the financial statements as it relates to cash generation expected to arise in the future.
Life Company Free Surplus	The Solvency II surplus of the Life Companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section on page 35 for further analysis of the solvency positions of the Life Companies.

APM	Definition	Why this measure is used	Reconciliation to financial statements
Long-term Free Cash ('LTFC')	Long-term Free Cash ('LTFC') is comprised of long-term cash to emerge from in-force business, plus holding company cash, less an allowance for costs associated with in-flight mergers and acquisitions and the related transition activities, and a deduction for shareholder debt outstanding.	LTFC provides a measure of the Group's total long-term cash available for operating costs, interest, growth and shareholder returns. Increases in LTFC will be driven by sources of long-term cash i.e. new business and over-delivery of management actions. Decreases in LTFC will reflect the uses of cash at holding company level, including expenses, interest, investment in BPA and dividends.	The metric is not directly reconcilable to the financial statements as it includes a significant component relating to cash that is expected to emerge in the future. Holding company cash included within LTFC is consistent with the holding company cash and cash equivalents as disclosed in the cash section of the business review. Shareholder debt outstanding reflects the face value of the shareholder borrowings disclosed on page 206.
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure provides an assessment of the day one value arising on the writing of new business in the UK Open and Europe segments, and is stated after applicable taxation and acquisition costs.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 36.
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, Group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS statement of consolidated cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on pages 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 313.
Operating profit	Operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in note 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 operating profit to the IFRS result before tax attributable to owners is included in the business review on page 38.
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.

Shareholder information

Annual General Meeting

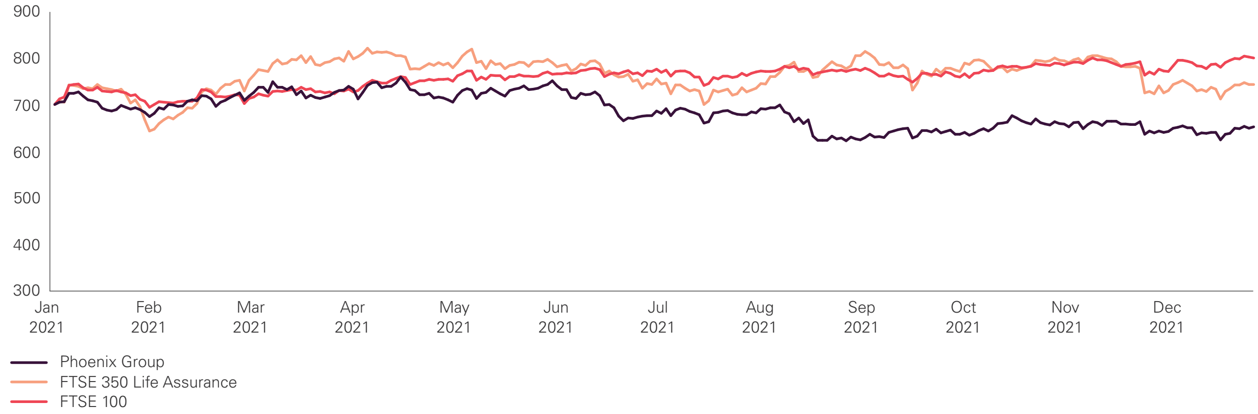
Our Annual General Meeting ('AGM') will be held on 5 May 2022 at 10.00am (BST).

The voting results for our 2022 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 2021

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	652	26.92	320,193	0.03
1,001–5,000	730	30.14	1,802,691	0.18
5,001–10,000	202	8.34	1,442,671	0.14
10,001–250,000	557	23.00	36,368,258	3.64
250,001–500,000	92	3.80	32,645,353	3.27
500,001 and above	189	7.80	926,956,892	92.74
Total	**2,422**		**999,536,058**	

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.

Warning to shareholders

Over recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company.

If you receive any unsolicited investment advice:
- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the Financial Conduct Authority ('FCA') before getting involved by visiting www.fca.org.uk/firms/systems-reporting/register;
- report the matter to the FCA by calling the FCA Consumer Helpline on 0800 111 6768; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme ('FSCS'). The FCA can also be contacted by completing an online form available at www.fca.org.uk/consumers/report-scam-unauthorised-firm. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website available at www.fca.org.uk/consumers.

Share price

You can access the current share price of Phoenix Group Holdings plc on the Group's website together with electronic copies of the Group's financial reports and presentations at www.thephoenixgroup.com/investor-relations.aspx

Ordinary shares – 2021 final dividend

Ex-dividend date	31 March 2022
Record date	1 April 2022
Payment date for the recommended final dividend	9 May 2022

Group financial calendar for 2022

Annual General Meeting	5 May 2022
Announcement of unaudited six months' Interim Results	15 August 2022

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

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 320

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

Brexit
The vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016

CAGR
Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year

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

COP26
The 26th United Nations Climate Change Conference of the Parties held in Glasgow in November 2021

Customer
Number of customers is measured as number of lead policyholders. A customer could be a lead policyholder on more than one policy and some policies could have more than one customer, therefore the customer number is approximate

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

EBT
Employee Benefit Trust – A trust set up to enable its Trustee to purchase and hold shares to satisfy employee share-based incentive plan awards. The Company's EBT is the Phoenix Group Holdings plc Employee Benefit Trust

Economic assumptions
Assumptions related to future interest rates, inflation, market value movements and tax

EEA
European Economic Area – Established on 1 January 1994 and is an agreement between Norway, Iceland, Liechtenstein and the European Union. It allows these countries to participate in the EU's single market without joining the EU

ERM
An equity release mortgage ('ERM') 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 leverage
Calculated by Phoenix (using Fitch Ratings stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent, non-controlling interests, the unallocated surplus and the Tier 1 Notes

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

GAR
Guaranteed Annuity Rate – A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate

Greenhouse Gas ('GHG') emissions
GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change. 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

Hampton-Alexander review and guidance
An independent review aimed at ensuring that talented women at the top of business are recognised, promoted and rewarded. The review focused on increased female representation on FTSE boards and women in senior executive positions. The guidance set targets of 33% representation of women on FTSE 350 Boards and in the executive committee (including their direct reports) to be achieved by the end of 2020

HMRC
Her 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

IFRS
International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board

Incremental long-term cash generation
Represents the increase in the expected future operating companies' cash generation to arise as a result of new business transacted in a period. It excludes 'Day 1' acquisition costs and is stated on an undiscounted basis

In-force
Long-term business written before the period end and which has not terminated before the period end

Inherited estate
The assets of the long-term with-profit funds less the realistic reserves for non-profit policies written into the non-profit fund, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees

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

IRR
The internal rate of return (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

LIBOR
London Interbank Offer Rate – The average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another

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 will be launched in 2022. The research will provide a rich picture of people's financial readiness for longer lives across the UK

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

LTIP
Long-Term Incentive Plan – The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy

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

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-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

Operating companies
Refers to the trading companies within Phoenix Group

Operating companies' cash generation
Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies

Operating profit
Operating profit is a non-GAAP measure that is considered a more representative measurement of performance than IFRS profit or loss after tax as it is based on expected long-term investment returns

Operations intensity metrics
Metrics based on Scopes 1 and 2 emissions within Phoenix Group's occupied premises

Origo
An electronic pensions transfer system

OTC
Over-the-Counter financial instruments are traded directly between two parties without a broker or exchange market

Own funds
Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed tiering limits and transferability restrictions to Basic Own Funds

Own Risk and Solvency Assessment ('ORSA')
The processes undertaken to provide a forward looking assessment of the Group's risk and capital profile, under normal and stress scenarios, as a result of its proposed business strategy and Annual Operating Plan

Paris Agreement
A legally binding international treaty on climate change. It was adopted by 196 parties at COP 21 in Paris on 12 December 2015. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to pre-industrial levels

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. Each FTSE 100 Board should 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

PCAF
The Partnership for Carbon Accounting ('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

Peripheral eurozone
Refers to Portugal, Ireland, Italy, Greece and Spain

Physical risks
Risks related to the physical impacts of climate change which can either be acute or chronic. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heatwaves

PRA
Prudential Regulation Authority – The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities

Protection policy
A policy which provides benefits payable on certain events. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness

ReAssure
The companies comprising ReAssure Limited, ReAssure Life Limited and Ark Life Assurance Company dac businesses which were acquired on 22 July 2020

Representative Concentration Pathway ('RCP')
A GHG concentration trajectory adopted by the IPCC. The pathways (RCP2.6, RCP4.5, RCP6, and RCP8.5) describe different climate futures, all of which are considered possible depending on the volume of GHGs emitted in the years to come. RCP 2.6 is a very stringent pathway. According to the IPCC, RCP 2.6 requires that carbon dioxide emissions start declining by 2020 and go to zero by 2100. In RCP 8.5, emissions continue to rise throughout the 21st century. It is generally taken as the basis for worst-case climate change scenario

SBT 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').

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

Solvency II
A regime for the prudential regulation of European insurance companies that came into force on 1 January 2016

Solvency II surplus
The excess of Eligible Own Funds over the Solvency Capital Requirement

Solvency Capital Requirements ('SCR')
SCR relates to the risks and obligations to which the Group is exposed, and is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200-year event'

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

TCS BaNCS
TCS BaNCS is a state of the art Life and Pensions administration platform operated by Tata Consultancy Services ('TCS')

TCFD
The Task Force on Climate-Related Financial Disclosures ('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

Tier 1 Notes
The £500 million fixed rate reset perpetual restricted Tier 1 write down Notes issued by Phoenix

Transitional measures on technical provisions
Transitional Measures on Technical Provisions ('TMTP') is an allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II 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

TSR
Total Shareholder Return – The total return, over a fixed period, to an investor in terms of share price growth and dividends (assuming that dividends paid are re-invested, on the ex-dividend date, in acquiring further shares)

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

UKCPT
A property investment company which is domiciled in Guernsey and listed on the London Stock Exchange

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

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

Reducing our environmental impact
In line with our Corporate Responsibility programme, and as part of our desire to reduce our environmental impact, you can view key information on our website.

Go online
www.thephoenixgroup.com

Investor relations
Our Investor Relations section includes information such as our most recent news and announcements, results presentations, annual and interim reports, share-price performance, AGM and EGM information, UK Regulatory Returns and contact information.

Go online
www.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
www.thephoenixgroup.com/site-services/e-mail-alerts.aspx

Forward-looking statements

Forward-looking statements

The 2021 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, social, environmental and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis, the COVID-19 pandemic, climate change and the effect of the UK's version of the 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union;
- the impact of inflation and deflation;
- 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, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within the 2021 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 2021 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2021 Annual Report and Accounts or any other forward-looking statements or data it may make or publish.

The 2021 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 2021 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 2021 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 2021 Annual Report and Accounts are likely to be amended, updated, recalculated or restated in the future.

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