Phoenix

Helping people secure a life of possibilities

Phoenix Group Holdings plc
Interim Report 2022

Performance

Key performance indicators

Operating companies' cash generation
£950m
(HY 2021: £872m)
REM APM

Group Solvency II surplus (estimated)
£4.7bn
(FY 2021: £5.3bn)
REM

Group Solvency capital coverage ratio (estimated)
186%
(FY 2021: 180%)
REM APM

Incremental new business long-term cash generation
£430m
(HY 2021: £206m)
REM APM

All amounts throughout the report marked with REM are KPIs linked to Executive remuneration.

All amounts throughout the report marked with APM are alternative performance measures. Read more on page 68.

Other performance indicators

Interim ordinary dividend per share
24.8p
(HY 2021: 24.1p)

IFRS operating profit
£507m
(HY 2021: £527m)
APM

IFRS loss after tax
£(876)m
(HY 2021: £(667)m)

Assets under administration
£269bn
(FY 2021: £310bn)
REM APM

Fitch financial leverage ratio
27%
(FY 2021: 28%)
REM

Contents

Group Chief Executive Officer's report

Phoenix has made a fantastic start to 2022 as we continued to deliver on our purpose and strategy, with a record set of first half financial results, and the announcement of our first ever cash funded acquisition, of Sun Life of Canada UK.

Phoenix has performed very strongly in the first half of the year despite the challenging macro environment, as we have once again delivered a record set of results, across our financial framework of cash, resilience and growth. This was underpinned by the strong progress we have made across our wider strategic priorities. These ensure we are delivering for our customers, colleagues and investors, and is in line with our social purpose, enabling us to play our wider role in society.

We continued to grow organically in the first half, as we delivered strongly for customers, and we are also growing inorganically, with the announcement of our first ever cash funded acquisition, of Sun Life Assurance Company of Canada (UK) Limited ('Sun Life of Canada UK').

We have therefore delivered on all of the key objectives I had set for the business at the start of the year, and I am delighted with the execution by the team.

Delivering on 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.

We have continued to deliver for all our stakeholders in the first half, as we executed on our five strategic priorities, which I outline in detail later in the report. These priorities are designed to support us in delivering both our strategy and our purpose.

We are of course very aware of the current economic backdrop and that many people are facing significant challenges from the cost of living crisis. It is therefore critical that we continue to focus on our social purpose at this time.

You can therefore expect Phoenix to continue to advocate on behalf of our customers, calling for legislative change where we believe it is important. Our approach is increasingly informed by our longevity think tank, Phoenix Insights, which is driving forward greater understanding and debate on some important issues that our industry needs to respond to, given people in the UK are living longer lives.

A strong financial performance in the first six months of 2022
During the first six months of 2022 we have delivered record first half cash generation of £950 million (HY 2021: £872 million). We have also maintained our resilient Solvency II ('SII') capital position with a SII Surplus of £4.7 billion (FY 2021: £5.3 billion) and increased our Shareholder Capital Coverage Ratio ('SCCR') to 186% (FY 2021: 180%).

Our Open business has delivered record first half new business long-term cash generation of £430 million, more than double the first half of 2021, on a like-for-like basis (HY 2021: £206 million), thanks to a good first half performance in Bulk Purchase Annuities ('BPA').

The ongoing resilient cash generation that we deliver has enabled the Board to declare an Interim dividend of 24.8p per share, a 3% increase year-on-year (HY 2021: 24.1p), which reflects the organic dividend increase that we implemented with the 2021 Final Dividend.

IFRS operating profit remained strong at £507 million (HY 2021: £527 million), but we are reporting an IFRS statutory loss after tax of £(876) million. This primarily reflects £(1,076)m of adverse investment return variances, which arise from our comprehensive approach of hedging the key market risks we face, calibrated to protect our SII capital position and cash generation, rather than the IFRS balance sheet.

Announced our first ever cash funded acquisition
We have recently announced the acquisition, subject to regulatory approval, of Sun Life of Canada UK, a closed book UK life insurance company with c.£10 billion of assets under administration. The consideration of £248 million equates to an attractive price to shareholder Own Funds ratio of 83%, in line with the Board's disciplined approach to the deployment of shareholder capital. The acquisition will be funded by our own cash resources as we invest surplus capital to generate strong returns for our shareholders.

The acquisition is expected to deliver c.£470 million of incremental long-term cash generation, with approximately 30% of this cash generation to emerge in the first three years. This includes the planned delivery of c.£125 million of integration synergies, net of costs, from cost efficiencies and capital management actions, representing c.50% of the consideration paid.

We very much look forward to welcoming the Sun Life of Canada UK customers and colleagues to the Group. It is expected to be a simplified operational integration programme, owing to the majority of their policy administration already being undertaken by our strategic outsourcing partner (TCS Diligenta).

I am delighted that the value and incremental cash flow that we expect to generate through this acquisition has enabled the Board to propose a 2.5% inorganic increase in the Group's dividend, to take effect from and including the 2022 Final Dividend, subject to completion. I am confident that this transaction will demonstrate the significant value to shareholders of smaller, cash funded M&A.

Overview

Clear progress across our strategic priorities
We have five strategic priorities which 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 made strong progress against all of these in the first half of 2022, 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.

A key driver of this is our expertise in optimising for cost and capital efficiencies, the output of which we call 'management actions'. I am therefore pleased that we have delivered a further £421 million of management actions in the period. This included our diversification into US credit as we took advantage of relative spread widening compared to illiquid credit, as well as our ongoing illiquid asset origination where we saw attractive value opportunities, and the approval of the partial internal model for our European business.

Meanwhile, we continue to operate our comprehensive dynamic hedging approach which protects our SII balance sheet by hedging the majority of our market risks, and this ensured our economic capital variance remained low, at just £(0.2) billion, despite the volatile markets.

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 the first half of 2022 we have once again demonstrated our capabilities here.

A key part of our integration journey is migrating customers from the legacy Standard Life platform onto the modern TCS Diligenta platform. This is a programme that has been years in the planning and so I am delighted that we successfully transferred our first customers across in the first half of the year, with all 400,000 Standard Life annuities safely migrated. This is both a great outcome for customers and a key strategic milestone for our integration programme.

We have also continued to realise synergies from the ReAssure integration, with a further £15 million per annum of cost synergies achieved in the first half of the year, as we progressed the Phase 2 integration of the actuarial and finance functions. This means we have now delivered £1,078 million of synergies to date, and have therefore exceeded our revised target of £1,050 million in just two years.

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. It is therefore great to see the continued high levels of employee engagement, with our average score currently 7.5 of 10.

I am also pleased that we have made strong progress on increasing female representation at the very top of the organisation. Our focus here means that we have increased the proportion of women, including known hires, on the Phoenix Group Board to 54% (FY21: 33%) and on my Executive Committee to 42% (FY21: 17%).

Grow our business to support both new and existing customers
It is great to see that the investment into our growth is paying off, as we delivered record first half new business long-term cash generation of £430 million in HY 2022, more than double HY 2021 at £206 million. We also delivered £1.8 billion of net inflows across our Open business in the first half, a significant improvement on the £1.1 billion of net outflows we saw in HY 2021.

Our Retirement Solutions business was again the largest contributor with £282 million of new business long-term cash generation (HY 2021: £80 million), having contracted £1.6 billion of BPA premiums in the first half (HY 2021: £0.4 billion), across six transactions, as we built on our position as an established player in the market.

I am also delighted with the turnaround in our capital-light, fee-based businesses, with a £1.9 billion year-on-year increase in net fund flows. Workplace was the key driver of this, which reflects the significant investment we have made into our proposition and our ability to fully leverage the Standard Life brand now it is in our ownership. The momentum is building in our new scheme wins too, which will benefit future year's flows.

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, where we are once again exceeding our targets for the year. With a Combined Group telephony customer satisfaction score of 93% (target: 90%) and a Standard Life digital journeys satisfaction score of 94% (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'. We are helping our customers on their journey to and through retirement, which is even more important given the current economic backdrop. We have delivered a range of initiatives in the first half in support of this.

For instance, our think tank, Phoenix Insights, launched its inaugural Longer Lives Index to much acclaim in March. This innovative new index is designed to understand who is and is not confident and prepared for their financial futures. By understanding the scale and nature of who lacks confidence in their financial futures and why, we can begin to understand what actions need to be taken today.

We also commenced the migration of £15 billion of pension assets, covering 1.5 million customers, to our Standard Life Sustainable Multi Asset fund. This is a significant step forward in our ambition to support more of our customers in their desire to invest their pensions' savings more sustainably.

We have also been busy working to develop an innovative range of retirement income solutions as we look to create a compelling offering in the individual pensions and savings market to support people in securing a better retirement.

Invest in a sustainable future
We have continued to invest in a sustainable future, as we respond to both the clear customer demand, and demonstrate leadership, as a purpose-led business.

A good example of this is climate change, where we are playing a leading role in the substantial investment the sector can make here. For instance, we invested a further £485 million into a range of sustainable illiquid assets in the first half, including £170m invested into affordable housing, £167m into positive environmental impact projects, and £75m into healthcare & education.

Phoenix also sits on the Expert Group of the Government Net Zero Transition Plan Taskforce. The Taskforce will produce guidance on how government's commitment to require Transition Plans should be implemented, with a Call for Evidence to be issued shortly, and is a great example of us using our influence to help lead the debate for the industry,

We are also an active member of the Taskforce on Nature Financial Disclosures ('TNFD') forum and are committed to integrating nature into our investment decision making process. We look forward to taking part in the upcoming pilot of the TNFD beta framework.

Finally, we have used our influence to encourage 60% of our key suppliers to commit to SBTi/Race to Net Zero and are on track to meet our target of 75% by the end of the year.

Supporting our customers and colleagues
At Phoenix we see our core social purpose as being just as important as our business performance. We are highly aware of the pressures that people across the UK are feeling as they have to deal with the elevated cost of living and rising interest rates. Which is why we have been working tirelessly to ensure we can support our customers and colleagues through the challenging economic outlook.

For instance, we have been building on our programme of activities for our most vulnerable customers such as our digital literacy initiatives that have been offered to over 1 million customers. While we have also provided a package of support to our colleagues, including a one-off £1,000 net lump sum payable in August to all employees other than ExCo and our Top 100 leaders.

Strategic outlook
While we recognise the challenging economic backdrop and the impact this will have for many people and businesses, Phoenix is well positioned to continue delivering on its strategy and to support both our customers and our colleagues.

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, both of which can support future dividend increases.

Phoenix is a growing business, with a defensive balance sheet, and offers a uniquely reliable dividend, that is sustainable and grows over time.

Thank you
Our strong start to 2022 could not have been achieved without our exceptional people and I would therefore like to thank my colleagues throughout the Group for executing on our strategy. I look forward to Phoenix delivering another successful six months and beyond.

Andy Briggs
Group Chief Executive Officer

Delivering cash, resilience and growth

Phoenix has delivered a strong financial performance in the first half of 2022, across our financial framework of cash, resilience and growth, and we have announced our first cash funded acquisition, of Sun Life of Canada UK.

We have delivered record cash generation of £950 million in the first half and are on track to deliver at the top-end of our 2022 target range of £1.3 to £1.4 billion.

We have also maintained our resilient SII balance sheet, with a SII surplus of £4.7 billion and a Shareholder Capital Coverage Ratio of 186%, providing us with the capacity to invest into both organic and inorganic growth. Our strong capital position has also enabled the Group to de-leverage, with the repayment of a £450 million Tier 3 bond that matured in July, which helped reduce our leverage ratio to 27%. This means we are comfortably within our 25-30% leverage ratio target range.

Our incremental new business cash generation has more than doubled year-on year to £430 million, and with a buoyant BPA market and strong pipeline, I have confidence that we will once again more than offset the Heritage run-off through organic growth from our Open business in 2022.

The Board has declared an Interim dividend of 24.8p per share, which is a 3% year-on-year increase, reflecting last year's organic increase. I am also delighted that we have announced our first ever cash funded acquisition, of Sun Life of Canada UK for £248 million. With the proposed 2.5% inorganic dividend increase to be effective with our 2022 Final Dividend, subject to completion.

The Group's IFRS operating profit remained strong at £507 million (HY 2021: £527 million), but we are reporting an IFRS statutory loss after tax of £(876) million. This primarily reflects £(1,076) million of adverse investment return variances in relation to our hedging instruments. As a reminder, our hedging approach is designed to stabilise our SII Surplus and long-term free cash, which in turn protects our dividend capacity, but this does cause significant IFRS volatility due to a mismatch between our IFRS balance sheet, and the Solvency balance sheet which we are hedging. However, we accept this as the trade-off to deliver the resilient cash generation and dividend that Phoenix is known for.

Overall, the progress we have made in the first half demonstrates the strength of our business model and affirms our focused strategy, as we continue to grow our business both organically and inorganically, which in turns supports our dividend that is sustainable and grows over time.

A strong financial performance in HY 2022

Financial performance metrics:		30 June 2022	30 June 2021	YOY change
Cash	Cash generation	**£950m**	£872m	+9%
New Business	Incremental new business long-term cash generation	**£430m**	£206m	+109%
Dividend	Interim dividend per share	**24.8p**	24.1p	+3%
IFRS	Loss after tax	**£(876)m**	£(667)m	-31%
	Operating profit before tax	**£507m**	£527m	-4%
Balance sheet metrics:		**30 June 2022**	31 December 2021	6-mth change
Solvency II Capital	PGH Solvency II surplus	**£4.7bn**	£5.3bn	-11%
	PGH Shareholder Capital Coverage Ratio ('SCCR')	**186%**	180%	+6%pts
Assets	Assets under administration	**£269bn**	£310bn	-13%
Leverage	Fitch leverage ratio[1]	**27%**	28%	-1%pt

1 Leverage ratio is pro forma for a £450m debt repayment made in July and allowing for currency hedges over foreign currency denominated debt.

Alternative performance measures

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 the Group, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP') or the statutory reporting framework.

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 on page 68.

Cash

£950m
Operating companies' cash generation

£11.8bn
Group Long-Term Free Cash (after all future debt interest)

Cash generation & group liquidity

Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies.

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, including support for growth opportunities.

Group cash flow analysis

£m	30 June 2022	30 June 2021
Cash and cash equivalents at 1 January	**963**	**1,055**
Net cash receipts from operating companies[1]	950	872
Uses of cash:		
Operating expenses	(39)	(44)
Pension scheme contributions	(9)	(4)
Debt interest	(124)	(123)
Non-operating cash outflows	(165)	(154)
Uses of cash before debt repayments and shareholder dividend	**(337)**	**(325)**
Debt repayments	–	(200)
Shareholder dividend	(248)	(241)
Total uses of cash	**(585)**	**(766)**
Support of BPA activity	(102)	(17)
Closing cash and cash equivalents at 30 June	**1,226**	**1,144**

1 Total cash receipts include £40 million received by the holding companies in respect of tax losses surrendered (HY 2021: £40 million).

Cash receipts

Cash generated by the operating companies during the period was £950 million (HY 2021: £872 million). The Group set a one-year target of £1.3 to £1.4 billion for 2022, and is now on track to meet the top-end of this range.

Uses of cash

Operating expenses of £39 million (HY 2021: £44 million) represent corporate office costs, net of income earned on holding company cash and investment balances. The slight decrease relative to 2021 reflects the delay into the second half of certain costs associated with the development of capabilities across our Group functions as we execute our growth strategy.

Pension scheme contributions of £9 million were made in the period (HY 2021: £4 million), with the increase on 2021 due to the inclusion of a £4 million contribution into the ReAssure pension scheme following a triennial review.

Debt interest of £124 million (HY 2021: £123 million) reflects interest paid in the period on Group debt instruments.

Non-operating net cash outflows of £165 million (HY 2021: £154 million) include £119 million of Group project expenses including transition activity in relation to the Standard Life platform migration and £46 million of net other items, including collateral posted and close-outs in respect of Group hedging instruments.

Shareholder dividend

The shareholder dividend of £248 million represents the payment of the 2021 final dividend in May. This has increased year-on-year, from £241 million, due to the 3% organic increase announced alongside our full year 2021 results.

Support of BPA activity

Funding of £102 million (HY 2021: £17 million) has been provided to the life companies to support the strong performance in the first half in BPA, with £1.6 billion of premiums written.

Business review

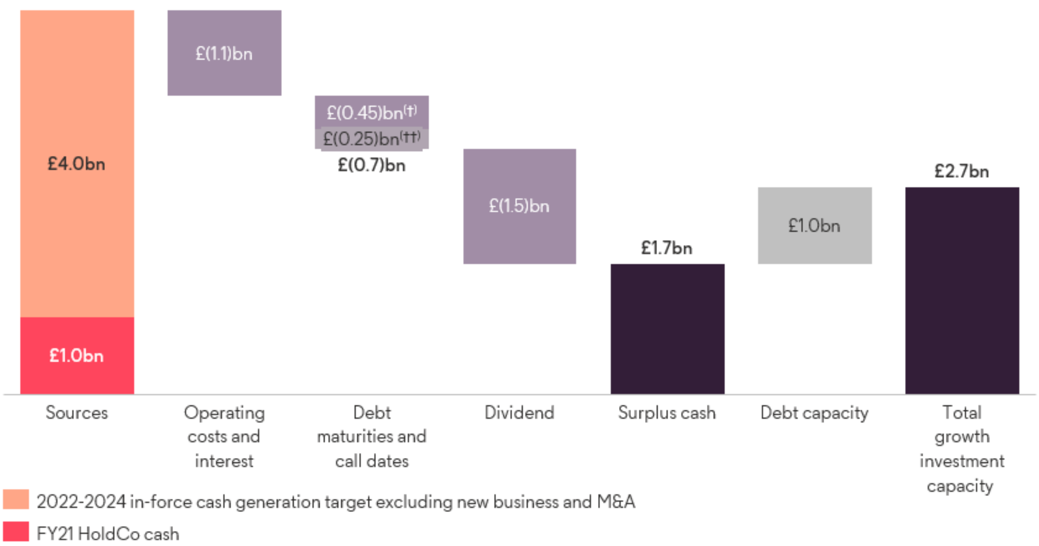
Illustrative investment growth capacity

Looking over the period 2022–24, we expect to have significant Group cash resources of around £5.0 billion available from our existing in-force business. This will more than cover the Group's expected uses of £3.3 billion for operating and integration costs, debt interest and repayments, and our shareholder dividend cost at its new, increased level.

The Group therefore expects to generate £1.7 billion of surplus cash, with a further c.£1 billion of additional debt capacity available within our leverage ratio target range, totalling £2.7 billion of growth investment capacity.

This provides us with the capacity to cash fund the £248 million acquisition of Sun Life of Canada UK, invest our target allocation of around £300 million into BPA in 2022, and to continue investing into future growth opportunities over time.

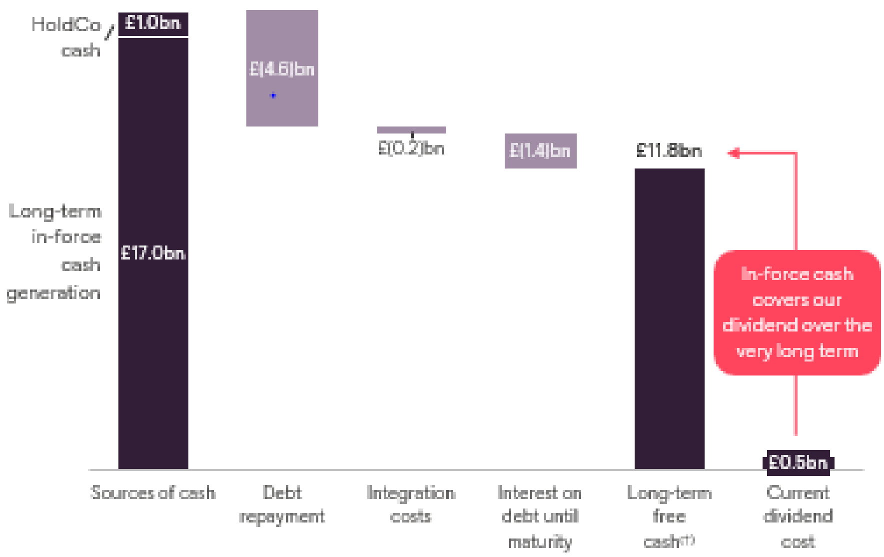
Illustrative 2022-2024 growth investment capacity



(†) Tier 3 debt repaid in July 2022
(††) Tier 2 bond call date in 2024

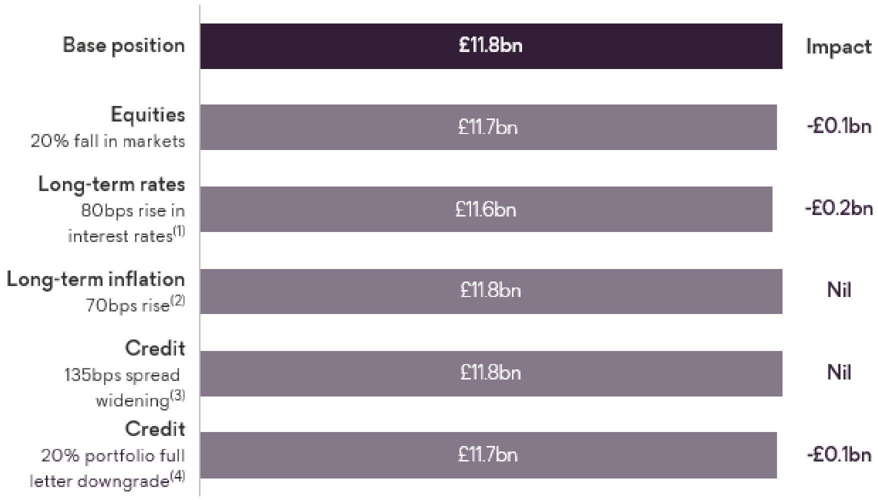
Group long-term free cash (after future interest costs)

Group Long-Term Free Cash (after future interest costs) 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 the servicing and redemption of all shareholder debt outstanding. This totalled £11.8 billion as at 31 December 2021 and covers our c.£0.5 billion annual dividend cost over the very long term.



Protecting the resilience of this free cash flow is key in ensuring the long-term sustainability of our dividend. We view the key market risks associated with equities, interest rates and inflation as unrewarded risks, as they could cause volatility to the value of this cash. Therefore we hedge these risks to mitigate volatility and deliver dependable cash generation.

As a result, our hedging approach, along with the proactive management of credit risk, means that there is no material impact on this free cash flow from the key market risks, as shown below. This underpins the unique resilience of Phoenix's dividend over the very long term and means we are well positioned to continue delivering for our shareholders in an uncertain economic environment.



Notes

1 Assumes the impact of a dynamic recalculation of transitionals (subject to PRA approval) 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.

2 Stress reflects a structural change in long-term inflation with an increase of 70bps across the curve.

3 Credit stress varies by rating and term and is equivalent to an average 135bps spread widening. It assumes the impact of a dynamic recalculation of transitionals (subject to PRA approval) and makes no allowance for the cost of defaults/downgrades.

4 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc.). This sensitivity assumes management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.

Resilience

£4.7bn

Group Solvency II surplus (estimated)

186%

Group Shareholder Capital Coverage ratio (estimated)

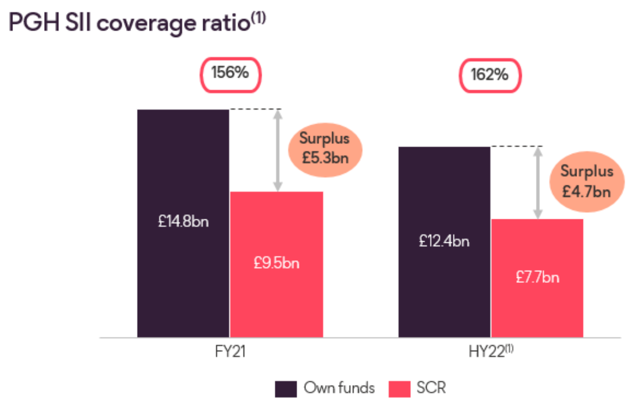
Capital management

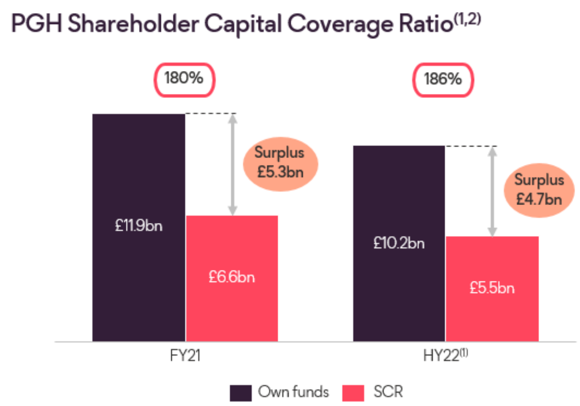
A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). The Group's Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the 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 Solvency II surplus of £4.7 billion, which includes the accrual for the deduction of our 2022 interim dividend, and reflects the repayment of a £450 million Tier 3 bond that matured in July.

Our Shareholder Capital Coverage Ratio ('SCCR') is 186%, which is above our 140%-to-180% target range. This provides significant capacity to invest into both organic growth through BPA and inorganic growth such as the acquisition of Sun Life of Canada UK.





Notes

1. 30 June 2022 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.4 billion and 10% respectively.
2. The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes.

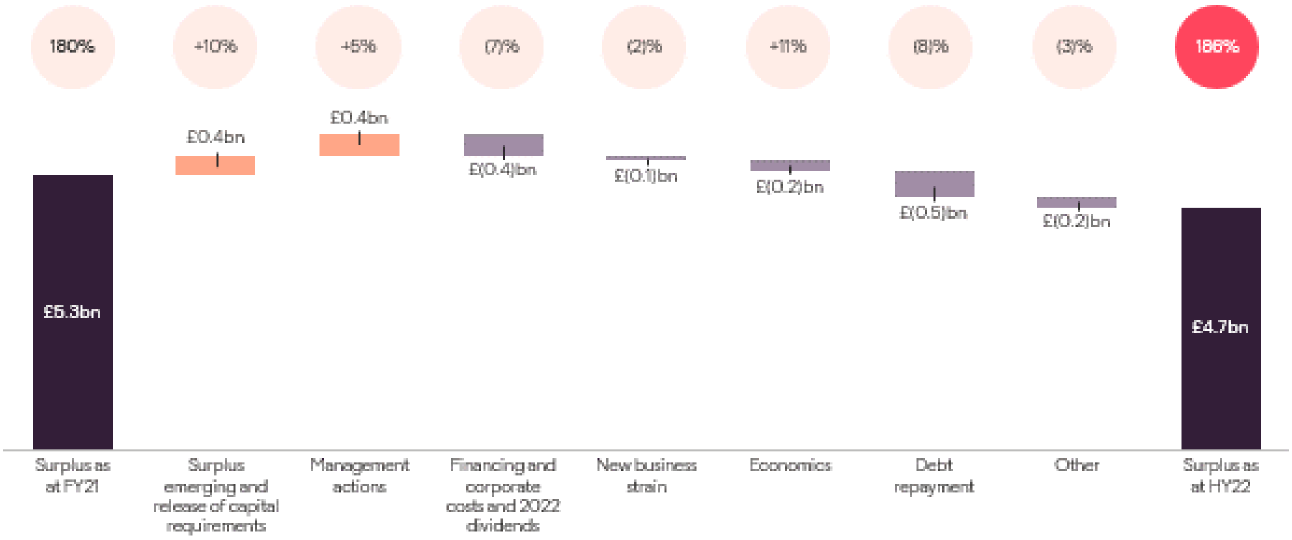
Business review

Change in Group Solvency II surplus (estimated)
The Group Solvency II Surplus has decreased to £4.7 billion (FY21: £5.3 billion) largely due to the £450 million repayment of capital qualifying debt that was deducted from our June solvency position.

Our ongoing surplus emergence contributed £0.4 billion and management actions delivered £0.4 billion. We delivered strong management actions in the period, primarily from 'business as usual' actions as we continue to optimise our in-force business. Actions included our ongoing illiquid asset origination, the proactive deployment into US liquid credit to take advantage of relative spread widening and geographical diversification, as well as further balance sheet optimisation actions. I am also delighted that we delivered the first key action to improve the efficiency of our European business, with the regulatory approval of our partial internal model.

Operating costs, dividends and interest totalled £(0.4) billion, and we repaid a £450m Tier 3 bond that reduced surplus by £(0.5) billion. We also experienced a small economic variance at just £(0.2) billion, despite the significant movement in yields year-to-date. This reflects our comprehensive approach of hedging the majority of our market risks, and while this causes some volatility in Own Funds, it is designed to stabilise our Solvency II surplus and therefore protect long-term cash generation, so is a trade-off we accept.

We have also invested £0.1 billion of capital into growth, primarily for the funding of £1.6 billion of BPA premiums written in the period. With a strong pipeline for BPA in the second half, we do expect to fully invest our target level of capital of around £300 million during 2022.



Change in SCCR (estimated)
Our SCCR has increased by 6%pts to 186% as at 30 June 2022 (FY 2021: 180%).

Ongoing surplus emerging and release of capital requirements increased the SCCR by 10%pts, and the delivery of management actions in the period increased the SCCR by 5%pts, with most of these actions being value generating Own Funds actions.

In addition, there has been an 11%pts increase due to economics. While the surplus movement was small at just £(0.2) billion due to our comprehensive hedging strategy, this did cause volatility in the Group's Own Funds, to offset against movements in the SCR. We have experienced a significant adverse mark-to-market revaluation on our hedging instruments contributing to an adverse Own Funds impact of around £1.2 billion, which is offset by a £1 billion reduction in our SCR due to economic factors, principally rising yields, leading to the positive 11%pts ratio movement. Our hedges operated as expected and reduced the volatility in Solvency II surplus and therefore protected the resilience of our dividend.

Partly offsetting the positive ratio movements were the recognition of the July repayment of the £450 million Tier 3 bond, which decreased the SCCR by 8%pts, new business strain of 2%pts, financing and corporate costs and accrual of the 2022 dividend which reduced it by 7%pts, and a number of other smaller items that total to a reduction of 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. These sensitivities have remained broadly unchanged in the first half of 2022, with all sensitivities remaining within risk appetite and small in the context of the Group's £4.7 billion Solvency II surplus.

The key sensitivity we focus on here is a full letter downgrade of 20% of our credit portfolio, which results in a £0.3 billion Solvency II surplus impact. This credit downgrade stress has now been updated to align to the wider industry practice of including realistic management actions if a downgrade event were to occur, which means the Group's sensitivity is now comparable to peers.

Given inflation is so topical at the moment, it is worth reiterating that we have no material exposure to inflation. Inflation emerges in two principal areas within our business, both of which we have hedged. Firstly, we have the inflation linked annuities, which are hedged with index-linked gilts, and secondly, we have the exposure on our policy administration and operating costs, which we also hedge. This means that the current inflationary environment will have no material financial impact on the Group.

Illustrative risk exposure stress testing

Estimated impact[1] on PGH Solvency II	Surplus £bn	SCCR %
Solvency II base	**4.7**	**186**
Equities: 20% fall in markets	Nil	3
Long-term rates: 80bps rise in interest rates[2]	(0.1)	5
Long-term rates: 70bps fall in interest rates[2]	0.1	(3)
Long-term inflation: 70bps rise in inflation[3]	Nil	Nil
Property: 12% fall in values[4]	(0.2)	(3)
Credit spreads: 135bps widening with no allowance for downgrades[5]	(0.1)	1
Credit downgrade: immediate full letter downgrade on 20% of portfolio[6]	(0.3)	(7)
Lapse: 10% increase/decrease in rates[7]	(0.1)	(1)
Longevity: 6 months increase[8]	(0.6)	(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 135bps spread widening. It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades.
6 Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc. This sensitivity assumes management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade
7 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.
8 Applied to the annuity portfolio.

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 30 June 2022, the Life Company Free Surplus was £2.4 billion (31 December 2021: £2.6 billion).

The hedging strategy to protect surplus is reflected in the resilience of the Free Surplus shown below. The table analyses the movement in the period.

	Estimated position as at 30 June 2022 £bn
Opening Free Surplus	**2.6**
Surplus generation and run-off of capital requirements	0.4
Management actions	0.4
New business strain including BPA	(0.1)
Economics, financing and other	-
Free Surplus before cash remittances	**3.3**
Cash remittances to holding companies	(1.0)
Cash remittances from holding companies	0.1
Closing Free Surplus	**2.4**

Growth

£430m
Incremental new business long-term cash generation

£269bn
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 64.

Please see the APM section on page 68 for further details of these measures.

Incremental new business long-term cash generation

We have delivered incremental new business long-term cash generation of £430 million in the period, more than double the prior year on a like-for-like basis (HY 2021: £206 million). This is a fantastic start to the year and we are therefore on-track to more than offset the Heritage run-off once again, by delivering organic growth with incremental cash generation of more than £800 million for 2022.

Retirement Solutions

2021 was the year that Phoenix, through our newly acquired Standard Life brand, firmly established itself as a key player in the BPA market.

We have built on this foundation with a strong start to 2022, having completed £1.6 billion of premiums across 6 external transactions. This has delivered £282 million of long-term cash generation, a 253% increase on HY 2021 (which was £80 million on a like-for-like basis). Our strain has also reduced again from 6.5% at FY 2021 to 6.2% inclusive of our capital management policy, but which equates to 3.8% on a pre-capital management policy basis. Despite a competitive market, we have maintained our pricing discipline and improved both the cash multiple and payback, leading to improved IRRs in the period.

Looking forward, we have a very strong pipeline for the second half of 2022. We have already completed a further £1.1 billion of transactions in H2, and we are exclusive on another £500 million transaction which will complete in Q3. We will also buy-in the remaining c.£600 million of our Pearl Pension Scheme in the second half.

As a result, we are confident of fully deploying our target level of capital into BPA this year, of around £300 million.

Workplace

We have delivered incremental new business long-term cash generation of £112 million in the period, an increase of 60% on HY 2021 (HY 2021: £70 million), noting that Workplace new business long-term cash generation is seasonally more weighted to the first half, due to the benefit from annual salary increases.

Customer savings and investment ('CS&I')

Incremental new business long-term cash generation of £12 million from our CS&I business is down on the prior year (HY 2021: £18 million) primarily due to increased expenses reflecting increased investment in our proposition. However, we have been developing innovative retirement income solutions during the year, to support growth in this business over time.

Europe

There is a small decrease in the incremental new business long-term cash generation from our European business at £13 million (HY 2021: £16m), due to lower margins arising from changing sales and investment mix in the International bond market.

SunLife

Our incremental new business long-term cash generation from SunLife of £11 million has decreased year-on-year (HY 2021: £22 million), reflecting the impact of the cost of living crisis on our SunLife customer base leading to lower sales.

Business review

Group AUA

Group AUA as at 30 June 2022 was £268.8 billion (FY 2021: £310.4 billion). The decrease in the period is largely driven by £38.5bn of adverse market movements, but importantly there is limited impact from these market movements on the fees we earn, as they are hedged, which results in predictable cash generation.

(1) The Corporate Trustee Investment Plan product is not closed to new business and has therefore been moved from Heritage Business to Open Business for financial planning and reporting purposes

Heritage net flows

UK Heritage net outflows in the period of £4.9 billion (HY 2021: £5.8 billion net outflows) reflect policyholder outflows on claims such as maturities and surrenders, net of total premiums received in the period from in-force contracts.

Open net flows

Open net inflows in the period of £1.8 billion compares to net outflows of £1.1 billion across HY 2021. This reflects a good first half performance in BPA and the strong turnaround in our capital-light fee-based business.

Retirement Solutions net flows

Net inflows in Retirement Solutions, which encompasses our individual annuity and BPA businesses, were £0.4 billion in the period (HY 2021: £0.6 billion net outflow). Gross inflows during the period were £1.9 billion (HY 2021: £0.8 billion), inclusive of £1.6 billion of new BPA premiums written over the first six months. Outflows of £1.5 billion in the period (HY 2021 £1.4 billion) primarily reflect the natural run-off of our in-payment annuity policies.

Workplace net flows

Net inflows within our fee-based Workplace business were £1.7 billion in the period (HY 2021: £0.2 billion net outflow), a significant improvement year-on-year with the investment we have made into our proposition and our Standard Life brand, enabling us to both retain our existing schemes and win new schemes in the market. The momentum in our new scheme wins continues to accelerate, with 42 new schemes won in the first half of 2022 compared to 16 schemes won in HY 2021, although the transfer of assets for new scheme wins typically have up to a 12 month time lag, and so these will be seen in 2023.

Gross inflows were £3.2 billion, a 28% increase on HY 2021 (£2.5 billion), partly reflecting increased flows due to annual salary increases. The outflows experience year to date of £1.5 billion is much improved on HY 2021 (£2.7 billion) which were impacted by historic scheme losses delayed partly due to the pandemic and decisions taken on our legacy proposition that has since been improved substantially.

Other fee-based business net flows

We have seen net outflows of £0.3 billion (HY 2021: £0.3 billion net outflows) from our other fee-based businesses. Gross inflows in the period were £2.2 billion (HY 2021: £2.3 billion), primarily reflecting our individual retirement products sold in the UK and Europe, while outflows of £2.5 billion over the period (HY 2021: £2.6 billion) are largely due to the natural run-off of our CS&I and Europe businesses.

Other movements including markets

AUA decreased by £38.5 billion (HY 2021: £4.5 billion increase) as a result of other movements, driven by the net adverse impacts of market movements, largely due to rising yields.

CTIP reclassification

The Group offers a Corporate Trustee Investment Plan ('CTIP') product which remains open for new business and therefore the £10.1 billon of AUA for this product has been moved from the Heritage division (which manages products closed to new business) to the Open division (which manages our products that are open to new business).

IFRS results

£507m
Operating profit

27%
Fitch leverage ratio

£(876)m
IFRS loss after tax

IFRS profit/(loss) is a GAAP measure of financial performance and is reported in our statutory financial statements on page 29.

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 69 for further details of this measure.

IFRS profit and loss statement

£m	30 June 2022	30 June 2021
Heritage	280	375
Open	287	178
Service company	(26)	2
Group costs	(34)	(28)
Operating profit before tax	**507**	**527**
Investment return variances and economic assumption changes	(1,076)	(824)
Amortisation and impairment of intangibles	(258)	(299)
Other non-operating items	(280)	28
Finance costs	(103)	(111)
Profit before tax attributable to non-controlling interest	31	51
Loss before tax attributable to owners	**(1,179)**	**(628)**
Tax credit/(charge) attributable to owners	303	(39)
Loss after tax attributable to owners	**(876)**	**(667)**

IFRS loss after tax
The Group generated an IFRS loss after tax attributable to owners of £876 million (HY 2021: loss of £667 million), which primarily reflects £1,076 million of adverse investment return variances along with several other movements shown in the table above and explained below.

Operating profit
The Group generated a slightly reduced operating profit of £507 million (HY 2021: £527 million), reflecting a decrease in profits emerging from the Heritage business and additional costs incurred in the service companies as a result of investment in the Open division and the development of our Asset Management capabilities. These amounts have been partly offset by increased profits in the Open business, largely as a result of increased BPA new business.

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 4.1 to the IFRS condensed consolidated interim 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 £280 million in the period (HY 2021: £375 million). The year-on-year decrease reflects a decrease in expected return on with-profits business due to reduced bonuses, adverse experience variances and a strengthening in assumption changes for late retirement assumptions, together with the positive impact of modelling enhancements recognised in the prior period.

Open operating profit
The Group's Open business segment delivered an operating profit of £287 million (HY 2021: £178 million). 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. The operating profit generated in the period includes stronger Retirement Solutions new business profits of £77 million (HY 2021: £35 million) due to the increased level of BPA business written in 2022 and positive assumption and methodology changes.

Service company
The operating loss for management services from the service company of £26 million (HY 2021: profit of £2 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 £34 million (HY 2021: £28 million). They mainly comprise project recharges from the service companies and the returns on the scheme surpluses/deficits of the Group staff pension schemes. The increase in costs compared to the prior period principally reflects the inclusion of costs associated with developing our Group capabilities to support our growth ambitions.

Investment return variances and economic assumption changes
The net adverse investment return variances of £1,076 million (HY 2021: £824 million negative) have primarily arisen as a result of rising yields and inflation, a widening of credit spreads, offset by a fall in 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 does not recognise the additional Solvency II balance sheet items such as certain future profits and the Solvency Capital Requirements. 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, and vice-versa. However, importantly the Group's cash generation and dividend capacity are 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. The amortisation and impairment of acquired in-force business during the period of £248 million (HY 2021: £288 million) has decreased year-on-year reflecting the impact of the run-off. Amortisation and impairment of other intangible assets totalled £10 million in the period (HY 2021: £11 million).

Other non-operating items
Other non-operating items in the period totalled a £280 million loss (HY 2021: £28 million positive impact, inclusive of a £110 million gain on the Standard Life brand acquisition). Items in H1 2022 include £113 million of one-off costs related to the increase in expected costs following the strategic decision to re-phase our Standard Life customer & IT migration programme. As explained at our Full Year 2021 results, we have re-phased the integration programme to build out our Open business capabilities on the TCS Diligenta ('TCS') platform to enhance our competitive advantage, with the migration of our legacy policies onto the TCS platform now expected to complete by 2025. A key milestone for the project was achieved in the first half of 2022, with the full migration of 400,000 Standard Life annuities to TCS.

Also included are £47 million of costs associated with the implementation of IFRS 17, £20 million of costs associated with the ongoing ReAssure integration programme, £10 million of costs associated with a strategic initiative to enhance capabilities in relation to regulatory approvals which will support the move towards the Group's strategic asset allocation alongside growth delivered through BPA transactions, £61 million of other corporate project costs and other net one-off items totalling a cost of £29 million.

Finance costs
Finance costs of £103 million (HY 2021: £111 million) reflect interest borne on the Group debt instruments.

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 credit for the period attributable to owners is £303 million (HY 2021: £39 million tax charge) based on a loss (after policyholder tax) of £1, 179 million (HY 2021: loss of £628 million). A reconciliation of the tax charge is set out in Note 5 to the IFRS condensed consolidated interim 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 30 June 2022 is 27%[1] (31 December 2021: 28%), having reduced following active de-leveraging with the repayment of a £450 million debt maturity. The ratio remains within the target range of 25% to 30% that management considers to be associated with maintaining an investment grade rating.

1 Leverage ratio is pro forma for a £450m debt repayment made in July and allowing for currency hedges over foreign currency denominated debt.

Dividend

2022 Interim dividend
2021 was a pivotal year for Phoenix as we implemented our first ever organic dividend increase of 3%. This reflected the strong organic performance from our Open business in 2021. As ever, our 2022 Interim dividend of 24.8 pence per share is equal to the 2021 Final dividend, which is therefore a 3% year-on-year increase compared to the 2021 Interim dividend.

2022 dividend outlook
Looking to the remainder of 2022, I am really excited that we have the opportunity to demonstrate the strength of our business model, by potentially delivering both organic and inorganic dividend growth for the year.

The significant value and incremental cash flow that we expect to generate through the acquisition of Sun Life of Canada UK has enabled the Board to propose a 2.5% inorganic increase in the Group's dividend, to take effect from and including the 2022 Final Dividend, subject to completion.

In addition, the Board will assess ahead of the Full Year results whether organic business growth delivered during the year can sustainably fund an organic dividend increase for 2022 as well.

Dividend policy and future communication approach
Our updated dividend policy is to "pay a dividend that is sustainable and grows over time" and we are well positioned to deliver on this policy in 2022 and beyond.

However, in future years, given the Board's confidence that we can now deliver both organic and inorganic growth, on an ongoing basis, we intend to simplify our dividend communications. We will do this by announcing any potential annual dividend increase at our Full Year results, which combines both organic and inorganic growth, rather than providing separate dividend guidance on announcement of future M&A.

Outlook

Looking ahead
We delivered strong financial results in the first half of 2022, across our financial framework of cash, resilience and growth, and announced our first cash funded acquisition, of Sun Life of Canada UK.

We are also on track to deliver all of our financial targets for 2022.

This includes delivering at the top-end of our 2022 cash generation target range of £1.3 to £1.4 billion, and maintaining our resilient balance sheet by operating within our target ranges for our Solvency Shareholder Capital Coverage Ratio (140-180%) and leverage ratio (25-30%).

In terms of growth, having delivered £430 million of incremental new business long-term cash generation in the first half and with a strong second half pipeline for BPA, I am confident of once again more than offsetting the Heritage run-off through organic growth from our Open business. I therefore expect us to deliver organic growth that achieves incremental new business long-term cash generation of in excess of £800 million for 2022.

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. With our shareholder capital coverage ratio currently at 186%, we have surplus capital available to invest into both organic and inorganic growth opportunities.

As a result, we are confident of fully investing our target capital allocation of around £300 million into BPA for 2022, and have the capacity to cash fund the £248 million acquisition of Sun Life of Canada UK, which we aim to complete in Q1 2023, subject to regulatory approval.

Whilst recognising the challenging global economic environment we are all currently navigating, we are confident that the Group is well-positioned to continue delivering on our strategy. Our comprehensive approach of hedging equity, interest rates, currency and inflation risk, combined with our prudent management of credit risk, protects both our Solvency II surplus, and our Group long-term free cash, from market volatility. This underpins our resilient cash generation which means we can confidently continue to invest into organic and inorganic growth, and pay our sustainable dividend over the very long term.

I look forward to continuing to deliver on our purpose and strategy in the second half and beyond, which in turn will support us in delivering against our financial framework of cash, resilience and growth.

Rakesh Thakrar
Group Chief Financial Officer

Principal risks and uncertainties facing the Group

The Group's principal risks and uncertainties are detailed in this section, together with their potential impact, mitigating actions in place and any change in risk exposure since the Group's 2021 Annual Report and Accounts, published in March 2022.

A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Group, including risks that would threaten its business model, future performance, solvency or liquidity. The Board Risk Committee has carried out a robust assessment of principal risks for the Interim Report; as a result of this review the 13 risks noted in the Group's 2021 Annual Report and Accounts have been retained and assessed as 'No Change' in overall risk exposure.

Risk Environment

The external risk environment remains uncertain, as noted in the 2021 Annual Report Accounts; it is driven by a combination of factors which may have implications for the Group, its customers and colleagues. These include:

- The global macro-economic environment is highly uncertain and volatile as a result of the potential implications from rising inflation and interest rates, post-COVID-19 after effects, global Central Bank policy, geopolitical risk and the potential for global economic slow-down.
- The cost of living crisis and rising inflation will impact the lives of the Group's customers, particularly those most vulnerable, and colleagues. Throughout the COVID-19 pandemic the Group provided ongoing support to customers and colleagues and work is underway to ensure the same level of support is provided as the impacts of the cost of living crisis begin to materialise.
- Geopolitical risk remains prominent, including the effects arising from the conflict in Ukraine as well as post-Brexit factors, an upcoming change of UK Prime Minister and a renewed Scottish National Party campaign for Scottish Independence. The Group continues to monitor developments across the political environment.
- The regulatory change agenda continues to have potentially significant implications for the Group. The Group continues to engage with the Treasury and PRA on the proposed Solvency II Reforms and implementing the FCA's new Consumer Duty effectively is a key areas of focus for the Group.

Whilst the risk environment remains challenging and uncertain it is essential that the Group appropriately understands its risk exposures and how these change in stressed circumstances. This is enabled through application of the Group's Risk Management Framework (RMF) and its rigorous Stress and Scenario Testing (SST) Programme; over 2022 the SST Programme tested the Group's resilience to both financial and non-financial stressed events and this continues to be monitored by the Board Risk Committee.

Risk 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 2021 Annual Report and Accounts
Strategic risk				
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	The Group is exposed to the risk of failing to drive value through inorganic growth opportunities, including acquisitions of life and pensions books of business. The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that 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.** The integration of ReAssure plc is continuing as planned, with the integration of key functions, such as Finance and Actuarial, progressing well. In early 2022 the Group made the strategic decision to re-phase the remaining Standard Life customer policy migrations to complete by 2025. Progress towards this revised target has been made with the successful migration of around 400,000 Standard Life customer policies to the TCS BaNCS platform which completed in May 2022. Further customer migrations are planned through to 2025, which will support delivery of the Group's strategic objectives. On 4 August 2022, the Group announced the acquisition of Sun Life of Canada UK, a closed book UK life insurance company, from Sun Life Assurance Company of Canada, for cash consideration £248 million. This equates to an attractive price to shareholder Own Funds ratio of 83%, in line with the Board's disciplined approach to the deployment of shareholder capital. The acquisition is subject to regulatory approvals and is expected to complete during Q1 2023. Sun Life of Canada UK operates a predominantly outsourced business model with the majority of its policy administration already undertaken by our strategic outsourcing partner (TCS Diligenta), which supports a simplified operational integration programme. The Sun Life of Canada UK acquisition is expected to deliver approximately £470 million of incremental long-term cash generation, with 30% expected to emerge in the first three years.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
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 further strengthened and simplified its strategic partnerships since the 2021 Annual Report and Accounts, 'No Change' continues to be 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 its partnership with TCS to support its strategic deliverables. The successful migration of around 400,000 Standard Life Assurance customer policies to the TCS BaNCS platform was completed in May 2022. Planning for further migrations in 2022 and beyond is underway; this is in line with the Group's previously reported timescales. During the first half of 2022, the Group successfully migrated £60 billion of assets to be administered by HSBC. This is a key milestone in the Group's journey towards implementing harmonised investment administration processes. The simplified and extended partnership with abrdn plc continues to progress towards the Target Operating Model.
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 ambition of continuing to generate sufficient Open business growth to offset the run-off from the in-force business, which in turn brings 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 Business Unit structure brings renewed focus and accountability. The key areas of growth are Pensions & Savings and Retirement Solutions. Each Business Unit holds an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape and the Group's overall purpose and objectives. The Group's Annual Operating Plan commits to making significant investment in its Open business which will include propositions that are driven by customer insight. The Group is established in the Bulk Purchase Annuities (BPA) market and continues to invest in its operating model to further strengthen its capability to support its growth plans. For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying its rigorous Capital Allocation Framework.	2 3 4	**No change.** Over the first half of 2022 the Group completed BPA transactions with a combined premium of £1.6 billion, which compares to the £0.4 billion completed in the first half of 2021. However, 'No Change' reflects that there is still uncertainty (driven by the risk environment) around the delivery of consistent long-term growth in the Group's Open Business. In Workplace, the Group continues to make progress in the market, launching new propositional features such as Workplace ISA. The Group continues to recruit to increase its capability in terms of proposition and distribution; 42 new scheme wins have been confirmed between January and June 2022 (compared with 41 for the full year in 2021), and the Group is actively managing a number of enquiries.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
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. Further improvements are being made during 2022, including strengthening the assessment of change prioritisation to ensure that there is clear alignment to the Group's strategy. Information setting out the current and forecast levels of resource demand and supply continues to be provided to accountable senior management to enable informed decision-making to take place. This aims to ensure that all material risks to delivery are appropriately identified, assessed, managed, monitored and reported.	1 2 3 4 5	**No change.** In 2022, the Group continues to manage a significant volume of change, consistent with 2021. Embedding the strengthened Change Management Framework (noted in the 2021 Annual Report and Accounts) is ongoing, with continuous improvements taking place as new processes are embedded.
The Group fails to appropriately prepare for and manage the effects of climate change and wider ESG risks	The Group is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition, there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Group is also exposed to the risk of failing to respond to wider Environmental, Social and Governance ('ESG') risks and delivering on 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.	During 2021 the Group enhanced 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). This resulted in enhanced disclosures, in line with the Task Force on Climate-related Financial Disclosures ('TCFD') and details being 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. Over the first half of 2022, the Group has continued to build its climate scenario modelling capabilities. 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 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. The Group is committed 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 £160 billion of its listed equity and credit 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 Group is developing forward-looking metrics factoring investee company emission objectives and capturing management targets and strategy. 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. The Group has setup a think tank, 'Phoenix Insights', which aims to transform the way society responds to the possibilities of longer lives. The Group's ambition is to take the opportunities that people living longer presents to the forefront of public debate and the political agenda.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
CUSTOMER RISK				
The Group fails to deliver good 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 good outcomes for its customers, leading to adverse customer experience and potential customer harm. This could also lead to reputational damage for the Group and/or financial losses. In addition a failure to deliver propositions that meet the evolving needs of customers may result in the Group's failure to deliver its purpose of helping people secure a life of possibilities.	The Group's Conduct Risk Appetite sets the boundaries within which the Group expects customer outcomes to be managed. The Group Conduct Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group has a suite of customer policies which set out key customer risks and 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 2022, the Group has continued to make significant investments in its propositions; launching a Workplace ISA and successfully completing the switch of 87,000 Master Trust pension scheme members to its flagship workplace default solution, the Sustainable Multi Asset Universal Strategic Lifestyle Profile. This is the first phase of Standard Life's plans to establish sustainable strategies as its Defined Contribution default solution for pension savers, with over £15 billion in total earmarked to be migrated during 2022 on behalf of 1.5 million customers. Throughout the COVID-19 pandemic the Group provided 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. Work is underway to ensure the same level of support is provided to our customers, particularly those most vulnerable, as the impacts of the cost of living crisis begin to crystallise. For example, there is content on the Standard Life website with information to support customers through the cost of living crisis and the impacts of rising inflation. The Group is speaking to the Government and the regulator about potential legislative changes and the development of solutions and propositions to close the Guidance Gap in the market. A key aim of this is to deliver better customer outcomes and support customers in better preparing for their retirement.
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 outsourcers implemented a hybrid working model significantly reducing exposure to a number of physical risks caused by COVID-19.	1 2 3	**No change.** Whilst uncertainty regarding further COVID-19 related implications for the Group's operational resilience has reduced at present, the Group has a significant change and customer migration agenda, effective delivery of which is required to deliver planned strengthening of the Group's operational resilience both internally and with some Outsourced Service Providers. The Group has a programme of work to take forward areas of identified strengthening ahead of the next key regulatory deadline of the end of March 2025. As noted in the Group's 2021 Annual Report and Accounts, whilst many potential exposures to COVID-19 can now be effectively mitigated, a large-scale loss of colleagues due to illness or incapacity, in the UK or globally, is more challenging to resolve in the short-term as there remains uncertainty around the efficacy of vaccines against future COVID-19 variants. The Group aims to deliver considerable customer transformation activity in 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.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
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	**No change.** This risk was assessed as 'Heightened' in the Group's 2021 Annual Report and Accounts due to the uncertainty around Solvency II Reforms; there is 'No change' from that assessment. In April 2022, HM Treasury and the PRA issued a consultation on proposed Solvency II reforms which included a 60–70% reduction to the Risk Margin and reform of the Fundamental Spread and eligibility requirements for assets in Matching Adjustment portfolios. Changes to the Solvency Capital Requirement are omitted from this phase of the reform. The Group supports the PRA and HM Treasury's objectives to reform the regulations to better suit the UK market whilst maintaining the right safeguards for policyholders. However, uncertainty remains over when the reforms will be implemented and the quantitative impacts will depend on the exact detail of the final legislation. The Group is actively involved in industry lobbying on Solvency II reforms and it responded to the consultation in July 2022. A further technical consultation is expected later in 2022, which the Group will continue to engage proactively with. The objectives of the FCA's proposed new Consumer Duty are to deliver a higher and more consistent level of consumer protection and for the industry to do more to foresee and prevent harm before it happens. On 27 July 2022 the FCA published final rules and guidance; the implementation date has been extended and phased from April 2023. The Group is currently assessing the impacts of the final rules and guidance through its internal project which is underway to support this work and will continue to engage with the wider industry and ABI on the proposed changes.
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 hybrid ways of working, including remote access to business systems, adds additional challenges to cyber resilience and could impact service provision and customer security.	The Group is continually strengthening its cyber security controls, attack detection and response processes, identifying weaknesses through ongoing assessment and review. The Information/Cyber Security Strategy includes a continuous Information Security and Cyber Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and external threat intelligence sources. The Group continues to consolidate its cyber security tools and capabilities. The specialist Line 2 Information Security & Cyber Risk team provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions. 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	**No change.** This risk was assessed as 'Heightened' in the Group's 2021 Annual Report and Accounts due to the conflict in Ukraine. This remains the key driver for the 'No Change' assessment in the Interim Report. The ongoing conflict in Ukraine has resulted in increased cyber threat levels and the increased likelihood of a cyber-attack from a State actor; this would most likely be against the UK's Critical National Infrastructure, particularly on supply chains and the wider Financial Services industry which the Group relies upon. The Group regularly monitors National Cyber Security Centre guidance and other threat intelligence sources. To date, the Group has not seen a material increase in cyber-attacks since the conflict started. The Group's cyber controls are designed and maintained to repel the full range of the cyber-attack scenarios; although the Group's main threat is considered to be Cyber Crime, from Individuals or Organised Crime Groups, the same controls are utilised to defend against a Nation-State level cyber-attack. In the first half of 2022 the Group continued to strengthen and consolidate its cyber controls, including in areas such as Vulnerability and Patch Management, Detect and Respond and infrastructure scanning capabilities. Following a Final Stage Assessment in late June 2022, the British Standards Institution (BSI) recommended Phoenix Group for ISO 27001 Information Security Management Certification for its Workplace Pension and Benefits schemes.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 Annual Report and Accounts
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 skillsets. Potential areas of uncertainty include: the ongoing transition of ReAssure businesses into the Group, the expanded strategic partnership with TCS and the introduction of the hybrid working model.	Timely communications to colleagues aim to provide clarity around corporate activities, including details of key milestones to deliver against the Group's plans. The Group regularly benchmarks terms and conditions against the market and maintains succession plans for key individuals, ensuring successors bring appropriate diversity of thought, background and experience. Every six months, the Group's CEO and HR Director meet with the Executive Committee to discuss talent, succession and diversity. Monthly colleague surveys help to promote continuous listening and rapid identification of concerns and actions. The Group continues to actively manage operational capacity required to deliver its strategy with ongoing focus on senior bandwidth, attrition and sickness. Hybrid working offers colleagues greater flexibility in their working practices. The Group looks to proactively respond to external social and marketplace events that impact colleagues.	1 2 3 4 5	**No change.** Whilst there have been strong engagement scores in colleague surveys during 2021 and 2022, 'No Change' is driven by uncertainty regarding the longer term social and marketplace impacts of the pandemic and cost of living crisis on colleague attrition and sickness. Skills essential to the Group continue to be in high-demand in the wider marketplace and recruitment and retention still has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Group monitors this closely but continues to remain confident in the attractiveness of its colleague proposition. The Group is exploring ways to enhance the use of apprenticeships to fill key skills, and creating bespoke graduate and early careers programmes for specialist technical areas. The Group continues to successfully operate a hybrid working model, with strategic investments in technology and other resources maximising its effectiveness. The model focuses on empowerment by enabling leaders and colleagues to agree working arrangements that meet individual, team and business needs. The increased scale and presence of the Group, and success in multi-site and remote working, gives greater access to a larger talent pool to attract in the future. In addition, the Group's Graduate Programmes helps to support the talent pipeline.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 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 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.** The global macro-economic environment remains highly uncertain. The Ukraine conflict and rapid increase in inflation have increased market volatility over the first half of 2022, with potential for stagflation across developed economies. The longer-term impacts of the conflict are unknown, particularly on the cost and availability of commodities and food, which could continue to hamper the post-COVID-19 recovery. Inflation is considered a short to medium-term risk. Pressures are becoming more constant and the UK Consumer Price Index is expected to rise to just over 13% in late 2022 and remain at elevated levels throughout much of 2023 as highlighted in the Bank of England's August Monetary Policy. Further Bank of England rate increases could occur as a result. As noted in the 'Customer' risk above, work is underway across the Group to ensure customers are supported as the impacts of the cost of living crisis and rising inflation begin to crystallise. The Group continues to monitor, and actively manage, its market risk exposures, including to interest rates and inflation, and to markets affected by the conflict in Ukraine. The Group's strategy continues to involve hedging the major market risks and in 2022 the Group's Stress and Scenario Testing Programme continued to demonstrate the resilience of its balance sheet to market stresses. Contingency actions remain available to help manage the Group's capital and liquidity position 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.** There is 'No change' to this principal risk exposure since the 2021 Annual Report and Accounts given the ongoing uncertainty around future demographic experience as a result of COVID-19 impacts, in addition to implications arising from cost of living crisis. Demographic experience and the latest views on future trends continue to be considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has still been given little weight given its anomalous nature. The Group is actively monitoring customer behaviour as a result of the cost of living crisis; this includes the impact that any change in behaviour could have on demographic assumptions. As noted elsewhere in this section, work is underway to ensure support is provided to customers as the impacts from the cost of living crisis begin to materialise. The Group has completed BPA transactions with a combined premium of £1.6 billion in the first half of 2022. Consistent with previous transactions, the Group continues to reinsure the vast majority of the longevity risk with existing arrangements that are reviewed regularly.

Risk management

Risk	Impact	Mitigation	Strategic priorities	Change from 2021 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, derivatives or banking counterparties. This could cause immediate financial loss, or a reduction in future profits. The Group is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations. This would negatively impact the Group's operations which may in turn have adverse effects on customer relationships and may lead to financial loss.	The Group regularly monitors its counterparty exposures and has specific limits in place relating to individual counterparties, sector concentration and geographies. The Group undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified using a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Group regularly discusses market outlook with its asset managers in addition to the Line 2 Risk oversight provided. For mitigation of risks associated with stock-lending, additional protection is provided through indemnity insurance.	1 2	**No change** In the first half of 2022 the Group has continued to undertake de-risking action to increase the overall credit quality of its portfolio and mitigate the impact of future downgrades on risk capital. Furthermore, the Group has refined its counterparty concentration limits framework to better manage counterparty failure risk. This positive progress, and the easing of the economic and social impacts arising from COVID-19, is balanced by residual risks arising from the developing conflict in Ukraine. Uncertainties over the global economic outlook and high inflation present an increased risk of downgrades and defaults. The Group has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities. As a result of BPA transactions, the Group continues to increase investment in illiquid credit assets. This is within appetite and the growth is in line with the Group's strategic asset allocation plans and overall increase in the size of the Group's credit portfolio.

Emerging risks and opportunities

The Group's senior management and Board take emerging risks and opportunities into account when considering potential outcomes. This determines if appropriate management actions are in place to manage the risk or take advantage of the opportunity. Key risks discussed by senior management and the Board during the first half of 2022 include:

Risk Title	Description	Risk Universe Category
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
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
Ukraine Conflict	Short-term impacts are already being observed. Longer-term implications could include: geopolitical power shifts, greater asset scrutiny, increased defence spending, global food shortages and deceleration of climate change actions. Multiple unknowns remain beyond the current humanitarian crisis.	Strategic
Socio-Economic Inequality	The cost of living crisis is increasing the gap between the 'haves' and the 'have nots'. October's further energy cap increase is set to exacerbate the situation as those on lower incomes spend a greater proportion of income on fuel/energy. House price to earnings ratio is also at the highest in 30 years (7x). There is potential for political instability with a view that the Government is not doing enough to support those who are struggling financially.	Customer & Insurance
Pensions Innovation	The savings gap, advice gap and need for an income in retirement are well understood. Firms or products that can meet these needs will differentiate, with ease of access and technology set to be the key enabler.	Customer & Insurance

Statement of Directors' responsibilities

The Board of Directors of Phoenix Group Holdings plc hereby declares that, to the best of its knowledge:

- the condensed consolidated interim financial statements for the half year ended 30 June 2022, which have been prepared in accordance with UK adopted IAS 34 *Interim Financial Reporting*, give a fair view of the assets, liabilities, financial position and results of Phoenix Group Holdings plc and its consolidated subsidiaries taken as whole;
- the Interim Report includes a fair view of the state of affairs of Phoenix Group Holdings plc and its consolidated subsidiaries as at 30 June 2022 and for the financial half year to which the Interim Report relates as required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules. This includes a description of the important events that occurred during the first half of the year and refers to the principal risks and uncertainties facing Phoenix Group Holdings plc and its consolidated subsidiaries for the remaining six months of the year; and
- the Interim Report includes, as required by DTR 4.2.8R, a fair view of the information required on material transactions with related parties and any material changes in related party transactions described in the last Annual Report.

By order of the Board

Andy Briggs
Group Chief Executive Officer

Rakesh Thakrar
Group Chief Financial Officer

12 August 2022

Phoenix Group Holdings plc Board of Directors

Chairman
Nicholas Lyons

Executive Directors
Andy Briggs
Rakesh Thakrar

Non-Executive Directors
Alastair Barbour
Stephanie Bruce
Karen Green
Hiroyuki Iioka
Wendy Mayall
Katie Murray
John Pollock
Belinda Richards
Margaret Semple
Nicholas Shott
Kory Sorenson

Auditor's opinion

Phoenix Group Holdings PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated income statement, condensed statement of consolidated comprehensive income, condensed statement of consolidated financial position, condensed statement of consolidated changes in equity, condensed statement of consolidated cash flows and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the Directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
12 August 2022

Condensed consolidated income statement
For the half year ended 30 June 2022

	Notes	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Gross premiums written		**3,181**	2,139	7,455
Less: premiums ceded to reinsurers		**(970)**	(526)	(2,079)
Net premiums written		**2,211**	1,613	5,376
Fees and commissions		**482**	490	1,001
Total revenue, net of reinsurance payable		**2,693**	2,103	6,377
Net investment income		**(31,606)**	8,105	18,001
Other operating income		**16**	38	76
Gain on completion of abrdn plc transaction	2.1	**–**	110	110
Loss on disposal of Ark Life	2.2	**–**	–	(23)
Net income		**(28,897)**	10,356	24,541
Policyholder claims		**(4,667)**	(4,758)	(9,656)
Less: reinsurance recoveries		**822**	833	1,597
Change in insurance contract liabilities		**18,652**	5,017	3,076
Change in reinsurers' share of insurance contract liabilities		**(1,000)**	(856)	(177)
Transfer from unallocated surplus		**177**	79	106
Net policyholder claims and benefits incurred		**13,984**	315	(5,054)
Change in investment contract liabilities		**14,070**	(9,654)	(16,812)
Amortisation and impairment of acquired in-force business		**(251)**	(292)	(577)
Amortisation of other intangibles		**(10)**	(11)	(20)
Impairment of goodwill		**–**	–	(47)
Administrative expenses		**(1,122)**	(963)	(2,056)
Net income under arrangements with reinsurers		**281**	48	22
Net expense/(income) attributable to unitholders		**411**	(130)	(185)
Total operating expenses		**27,363**	(10,687)	(24,729)
Loss before finance costs and tax		**(1,534)**	(331)	(188)
Finance costs		**(116)**	(123)	(242)
Loss for the period before tax		**(1,650)**	(454)	(430)
Tax credit/(charge) attributable to policyholders' returns	5	**471**	(174)	(258)
Loss before the tax attributable to owners		**(1,179)**	(628)	(688)
Tax credit/(charge)	5	**774**	(213)	(279)
Add: tax attributable to policyholders' returns	5	**(471)**	174	258
Tax credit/(charge) attributable to owners	5	**303**	(39)	(21)
Loss for the period attributable to owners		**(876)**	(667)	(709)
Attributable to:				
Owners of the parent		**(907)**	(718)	(837)
Non-controlling interests	10	**31**	51	128
		(876)	(667)	(709)
Earnings per ordinary share				
Basic (pence per share)	6	**(92.0)p**	(73.3)p	(86.4)p
Diluted (pence per share)	6	**(92.0)p**	(73.3)p	(86.4)p

Condensed statement of consolidated comprehensive income

For the half year ended 30 June 2022

	Notes	**Half year ended 30 June 2022 £m**	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Loss for the period		**(876)**	(667)	(709)
Other comprehensive income/(expense):				
Items that are or may be reclassified to profit or loss:				
Cash flow hedges:				
Fair value gains arising during the period		**130**	5	44
Reclassification adjustments for amounts recognised in profit or loss		**(158)**	(11)	(36)
Exchange differences on translating foreign operations		**15**	(30)	(45)
Foreign currency translation reserve recycled to profit or loss on disposal of Ark Life		**–**	–	14
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit asset/liability		**648**	90	281
Tax charge relating to other comprehensive income items	5	**(155)**	(18)	(138)
Total other comprehensive income for the period		**480**	36	120
Total comprehensive expense for the period		**(396)**	(631)	(589)
Attributable to:				
Owners of the parent		**(427)**	(682)	(717)
Non-controlling interests	10	**31**	51	128
		(396)	(631)	(589)

Condensed statement of consolidated financial position

As at 30 June 2022

	Notes	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Assets				
Pension scheme asset	11	34	21	36
Reimbursement Rights	11	231	–	212
Intangible assets				
Goodwill		10	57	10
Acquired in-force business		4,078	4,602	4,323
Other intangibles		221	241	232
		4,309	4,900	4,565
Property, plant and equipment		126	131	130
Investment property		5,082	4,291	5,283
Financial assets				
Loans and deposits		405	649	475
Derivatives		3,369	4,704	4,567
Equities		75,928	85,189	86,981
Investment in associate		422	444	431
Debt securities		87,974	102,283	104,761
Collective investment schemes		77,941	85,442	85,995
Reinsurers' share of investment contract liabilities		9,096	9,667	9,982
	14	255,135	288,378	293,192
Insurance assets				
Reinsurers' share of insurance contract liabilities		7,589	8,002	8,587
Reinsurance receivables		83	73	69
Insurance contract receivables		59	309	70
		7,731	8,384	8,726
Deferred tax assets		30	–	–
Current tax		456	451	419
Prepayments and accrued income		473	375	373
Other receivables		4,383	3,361	1,805
Cash and cash equivalents		10,738	9,112	9,112
Assets classified as held for sale	2	8,978	12,719	9,946
Total assets		297,706	332,123	333,799

	Notes	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	8	**100**	100	100
Share premium		**8**	5	6
Shares held by employee benefit trust		**(13)**	(9)	(12)
Foreign currency translation reserve		**86**	72	71
Merger relief reserve		**1,819**	1,819	1,819
Other reserves	9	**28**	42	56
Retained earnings		**3,100**	4,069	3,775
Total equity attributable to owners of the parent		**5,128**	6,098	5,815
Tier 1 Notes		**494**	494	494
Non-controlling interests	10	**486**	387	460
Total equity		**6,108**	6,979	6,769
Liabilities				
Pension scheme liability	11	**2,323**	1,922	3,103
Insurance contract liabilities				
Liabilities under insurance contracts	12	**110,558**	127,433	128,864
Unallocated surplus		**1,591**	1,781	1,801
		112,149	129,214	130,665
Financial liabilities				
Investment contracts		**144,336**	156,607	160,417
Borrowings	13	**4,388**	4,318	4,225
Deposits received from reinsurers		**2,994**	3,770	3,569
Derivatives		**4,089**	1,101	1,248
Net asset value attributable to unitholders		**3,312**	3,666	3,568
Obligations for repayment of collateral received		**1,645**	3,482	3,442
	14	**160,764**	172,944	176,469
Provisions		**261**	243	235
Deferred tax liabilities		**735**	1,319	1,399
Reinsurance payables		**276**	130	143
Payables related to direct insurance contracts		**1,953**	1,858	1,864
Current tax		**18**	–	19
Lease liabilities		**97**	98	99
Accruals and deferred income		**501**	507	567
Other payables		**2,032**	2,543	721
Liabilities classified as held for sale	2	**10,489**	14,366	11,746
Total liabilities		**291,598**	325,144	327,030
Total equity and liabilities		**297,706**	332,123	333,799

Condensed statement of consolidated changes in equity
For the half year ended 30 June 2022

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £m	Total equity £m
At 1 January 2022	100	6	(12)	71	1,819	56	3,775	5,815	494	460	6,769
(Loss)/profit for the period	–	–	–	–	–	–	(907)	(907)	–	31	(876)
Other comprehensive income/(expense) for the period	–	–	–	15	–	(28)	493	480	–	–	480
Total comprehensive income/(expense) for the period	–	–	–	15	–	(28)	(414)	(427)	–	31	(396)
Issue of ordinary share capital, net of associated commissions and expenses	–	2	–	–	–	–	–	2	–	–	2
Dividends paid on ordinary shares	–	–	–	–	–	–	(248)	(248)	–	–	(248)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(5)	(5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	8	8	–	–	8
Shares distributed by the employee benefit trust	–	–	9	–	–	–	(9)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(10)	–	–	–	–	(10)	–	–	(10)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2022	100	8	(13)	86	1,819	28	3,100	5,128	494	486	6,108

Condensed statement of consolidated changes in equity

For the half year ended 30 June 2021

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £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 period	–	–	–	–	–	–	(718)	(718)	–	51	(667)
Other comprehensive (expense)/income for the period	–	–	–	(30)	–	(6)	72	36	–	–	36
Total comprehensive (expense)/income for the period	–	–	–	(30)	–	(6)	(646)	(682)	–	51	(631)
Issue of ordinary share capital, net of associated commissions and expenses	–	1	–	–	–	–	–	1	–	–	1
Dividends paid on ordinary shares	–	–	–	–	–	–	(241)	(241)	–	–	(241)
Dividends paid to non-controlling interests	–	–	–	–		–	–	–	–	(5)	(5)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	6	6	–	–	6
Shares distributed by the employee benefit trust	–	–	8	–	–	–	(8)	–	–	–	–
Shares acquired by employee benefit trust	–	–	(11)	–	–	–	–	(11)	–	–	(11)
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 30 June 2021	100	5	(9)	72	1,819	42	4,069	6,098	494	387	6,979

Condensed statement of consolidated changes in equity
For the year ended 31 December 2021

	Share capital (note 8) £m	Share premium £m	Shares held by the employee benefit trust £m	Foreign currency translation reserve £m	Merger relief reserve £m	Other reserves (note 9) £m	Retained earnings £m	Total £m	Tier 1 Notes £m	Non-controlling interests (note 10) £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

Condensed statement of consolidated cash flows
For the half year ended 30 June 2022

	Notes	**Half year ended 30 June 2022 £m**	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Cash flows from operating activities				
Cash generated/(utilised) by operations	15	**2,128**	(1,252)	(871)
Taxation paid		**(138)**	(104)	(149)
Net cash flows from operating activities		**1,990**	(1,356)	(1,020)
Cash flows from investing activities				
Proceeds from completion of abrdn plc transaction	2.1	**–**	115	115
Disposal of Ark life, net of cash disposed		**–**	–	189
Net cash flows from investing activities		**–**	115	304
Cash flows from financing activities				
Proceeds from issuing ordinary shares, net of associated commission and expenses		**2**	1	2
Ordinary share dividends paid	7	**(248)**	(241)	(482)
Dividends paid to non-controlling interests	10	**(5)**	(5)	(9)
Repayment of policyholder borrowings		**(23)**	(9)	(18)
Repayment of shareholder borrowings		**–**	(200)	(322)
Repayment of lease liabilities		**(7)**	(6)	(16)
Proceeds from new policyholder borrowings, net of associated expenses		**37**	–	17
Coupon paid on Tier 1 Notes		**(14)**	(14)	(29)
Interest paid on shareholder borrowings		**(119)**	(124)	(237)
Net cash flows from financing activities		**(377)**	(598)	(1,094)
Net increase/(decrease) in cash and cash equivalents		**1,613**	(1,839)	(1,810)
Cash and cash equivalents at the beginning of the period (before reclassification of cash and cash equivalents held for sale)		**9,188**	10,998	10,998
Total cash and cash equivalents		**10,801**	9,159	9,188
Less: cash and cash equivalents of operations classified as held for sale	2	**(63)**	(47)	(76)
Cash and cash equivalents at the end of the period		**10,738**	9,112	9,112

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The condensed consolidated interim financial statements ('the interim financial statements') for the half year ended 30 June 2022 comprise the interim financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group') as set out on pages 29 to 61 and were authorised by the Board of Directors for issue on 12 August 2022. The interim financial statements are unaudited but have been reviewed by our auditors, Ernst & Young LLP and their review report appears on page 28.

The interim financial statements have been prepared on a going concern basis and on a historical cost basis except for investment property, owner-occupied property and those financial assets and financial liabilities (including derivative instruments) that have been measured at fair value.

The interim 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 condensed 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 condensed 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.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK. The accounting policies applied in the interim financial statements are consistent with those set out in the 2021 consolidated financial statements.

The interim financial statements do not include all the information and disclosures required in the 2021 consolidated financial statements, and should be read in conjunction with the Group's 2021 Annual Report and Accounts, which have been prepared in accordance with UK adopted international accounting standards.

In preparing the interim financial statements the Group has adopted the following standards, interpretations and amendments effective from 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Annual Improvements (2018–2020 Cycle):
  - Subsidiary as a First-time Adopter (Amendments to IFRS 1);
  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9);
  - Lease Incentives (Amendments to IFRS 16); and
  - Taxation in Fair Value Measurements (Amendments to IAS 41).

None of the above interpretations and amendments to standards are considered to have a material effect on these interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The IFRS 17 *Insurance Contracts* standard will become effective from 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 was endorsed by the UK Endorsement Board in May 2022.

Note A5 of the Group's 2021 Annual Report and Accounts sets out the nature of the changes IFRS 17 will introduce. Reasonable estimates of the impact of the introduction of IFRS 17 are not yet available.

The focus of the Group's implementation programme during 2022 is on completing and embedding the operational capabilities, determining the transition balance sheet as at 1 January 2022 and preparing the comparatives required for 2023 reporting. The Group anticipates disclosing the impact of the introduction of IFRS 17 within its 2022 Annual Report and Accounts.

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2021 were delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Going concern

As part of the Directors' consideration of the appropriateness of adopting the going concern basis for the preparation of the interim financial statements, the Directors have assessed whether the Group can meet its obligations as they fall due and can continue to meet its solvency requirements over a period of at least twelve months from the approval of this report.

The board performs a comprehensive assessment of whether the Group and the Company are a going concern and as part of this assessment the Board has considered financial projections over the period to 30 September 2023, which demonstrate the ability of the Group to withstand market shocks in a range of severe but plausible stress scenarios. 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 its undrawn £1.25 billion Revolving Credit Facility.

As a result of the above assessment, these interim financial statements have been prepared on the basis that the Group will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the period covered by the assessment. .

2. Significant transactions

2.1 Agreement with abrdn plc

On 23 February 2021, the Group entered into a new agreement with abrdn plc to simplify the arrangements of their Strategic Partnership, enabling the Group to control its own distribution, marketing and brands, and focusing the Strategic Partnership on using abrdn plc's asset management services in support of Phoenix's growth strategy.

Under the terms of the transaction, the Group will sell its UK investment and platform-related products, comprising Wrap Self Invested Personal Pension ('Wrap SIPP'), Onshore Bond and UK Trustee Investment Plan ('TIP') to abrdn plc and effective from 1 January 2021 has transferred the economic benefit of this business to abrdn plc. The Group also acquired ownership of the Standard Life brand and as part of this acquisition, the relevant marketing, distribution and data team members transferred to the Group. As a result, the Client Service and Proposition Agreement ('CSPA'), entered into between the two groups following the acquisition of the Standard Life businesses in 2018, has been dissolved and the CSPA intangible has been fully impaired . In addition, Phoenix and abrdn plc resolved all legacy issues in relation to the Transitional Service Agreement ('TSA') entered into at the time of the acquisition of the Standard Life businesses and the CSPA.

The Group received cash consideration for the overall transaction of £115 million. On completion of the agreement the Group recognised a gain on the transaction of £89 million, net of tax of £21 million, in the condensed consolidated income statement.

The sale of the Wrap SIPP, Onshore Bond and TIP business currently within Standard Life Assurance Limited, will be effected through a Part VII transfer. 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 condensed 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'). Amortisation of £6 million has been recognised in the period (half year ended 30 June 2021: £3 million; year ended 31 December 2021: £8 million). The major classes of assets and liabilities classified as held for sale are as follows:

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Acquired in-force business	**48**	60	54
Investment property	**3,444**	3,537	3,309
Financial assets	**5,423**	6,565	6,507
Deferred tax assets	**–**	12	–
Cash and cash equivalents	**63**	38	76
Assets classified as held for sale	**8,978**	10,212	9,946
Assets in consolidated funds[1]	**1,502**	1,798	1,788
Total assets of the disposal group	**10,480**	12,010	11,734
Investment contract liabilities	**(10,428)**	(11,934)	(11,676)
Other financial liabilities	**(4)**	(3)	(4)
Provisions	**–**	(2)	(2)
Deferred tax liabilities	**(9)**	(11)	(10)
Accruals and deferred income	**(48)**	(60)	(54)
Liabilities classified as held for sale	**(10,489)**	(12,010)	(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 condensed consolidated statement of financial position. The Group controls these funds at each reporting date and therefore consolidates 100% of the assets with any non-controlling interest recognised as net asset value attributable to unitholders.

2.2 Disposal of Ark Life

On 1 November 2021, the Group completed the sale of its entire interest in Ark Life Assurance Company DAC ('Ark Life') to Irish Life Group Limited for gross cash consideration of €230 million (£198 million). The carrying value of the net assets disposed of was £201 million which is after an impairment loss of £18 million in respect of AVIF that was recognised upon classification of the business as held for sale.

	31 December 2021 £m
Cash consideration received	198
Less: transaction costs	(6)
Net consideration received	**192**
Net assets disposed of	(201)
Foreign currency translation reserve recycled to the consolidated income statement	(14)
Loss on disposal	**(23)**

At 30 June 2021, the Ark Life disposal group included assets held for sale of £2,507 million (financial assets: £1,825 million; reinsurers share of insurance contract liabilities: £658 million; other receivables: £15 million; and cash and cash equivalents: £9 million), liabilities held for sale of £ 2,356 million (insurance contract liabilities: £728 million; investment contract liabilities: £1,590 million; deferred tax liabilities: £3 million; and other liabilities: £35 million) and assets in consolidated funds of £46 million.

3. 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 interim financial statements.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group.

For management purposes, the Group is organised into business units based on their products and services. The Group has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. No such aggregation has been required in the current year.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs'), products sold under the SunLife brand, and annuities, including Bulk Purchase Annuity contracts.

The Europe segment includes business written in Ireland and Germany. This includes products that are actively being marketed to new policyholders, and legacy in-force products that are no longer being sold to new customers.

The Management Services segment comprises income from the life and holding companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs.

Unallocated Group includes consolidation adjustments and Group financing (including finance costs) which are managed on a Group basis and are not allocated to individual operating segments.

Inter-segment transactions are set on an arm's length basis in a manner similar to transactions with third parties. Segmental results include those transfers between business segments which are then eliminated on consolidation.

The business of Ark Life, which was disposed of in November 2021 (see note 2.2), was allocated to the Heritage operating segment. The Wrap SIPP, Onshore Bond and TIP business that has been classified as a disposal group held for sale (see note 2.1) is 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 segmental 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 Company's expected longer-term asset allocation backing the business).

The determination of operating profit is as described in note B1 of the Group's 2021 consolidated financial statements.

3.1 Segmental result

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Operating profit			
UK Heritage	280	375	537
UK Open	267	148	701
Europe	20	30	87
Management Services	(26)	2	(24)
Unallocated Group	(34)	(28)	(71)
Total segmental operating profit	507	527	1,230
Investment return variances and economic assumption changes on long-term business and owners' funds	(1,076)	(824)	(1,125)
Amortisation and impairment of acquired in-force business	(248)	(288)	(572)
Amortisation and impairment of other intangibles	(10)	(11)	(67)
Other non-operating items	(280)	28	(65)
Finance costs attributable to owners	(103)	(111)	(217)
Loss before the tax attributable to owners of the parent	(1,210)	(679)	(816)
Profit before tax attributable to non-controlling interests	31	51	128
Loss before the tax attributable to owners	(1,179)	(628)	(688)

Other non-operating items in respect of the half year ended 30 June 2022 include:

- £146 million related to the increase in expected costs associated with the delivery of the Group Target Operating Model for IT and Operations, following a strategic decision to re-phase the programme, together with the costs of migrating policyholder administration onto the TCS platform for certain legacy portfolios of business;
- £47 million of costs associated with the implementation of IFRS 17, which will be effective from 1 January 2023;
- costs of £20 million associated with the ongoing ReAssure integration programme;
- £10 million costs associated with a strategic initiative to enhance capabilities in relation to regulatory approvals which will support the move towards the Group's strategic asset allocation alongside growth delivered through bulk purchase annuity transactions;
- £37 million of other corporate project costs; and
- net other one-off items totalling a cost of £20 million.

Other non-operating items in respect of the half year ended 30 June 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 2.1 for further details);
- £35 million related to the increase in expected costs associated with the delivery of the Group Target Operating Model for IT and Operations;
- £14 million of costs associated with the ongoing ReAssure integration programme;
- costs of £9 million associated with the on-going integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019, and incurred since the beginning of this year;
- £27 million of other corporate project costs; and
- net other one-off items totalling an income of £3 million.

Other non-operating items in respect of the year ended 31 December 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 2.1 for further details);
- a loss on disposal of £23 million arising on the sale of Ark Life Assurance Company DAC ('Ark Life') (see note 2.2 for further details);
- £35 million related to the increase in provision for costs associated with the delivery of the Group Target Operating Model for IT and Operations;
- £45 million of costs associated with the ongoing ReAssure integration programme; costs of £27 million associated with the integration of the Old Mutual Wealth business acquired by ReAssure Group plc in December 2019 and costs of £12 million associated with the integration of the acquired L&G mature savings business;
- an £83 million policyholder tax benefit recognised following the favourable conclusion of discussions with HMRC in respect of certain excess management expenses associated with the L&G mature savings business;
- £58 million of costs associated with the implementation of IFRS 17, which will be effective from 1 January 2023;
- £44 million of other corporate project costs; and
- net other one-off items totalling a cost of £14 million.

Further details of the investment return variances and economic assumption changes on long-term business and the variance on owners' funds are included in note 4.

3.2 Segmental revenue

Half year ended 30 June 2022	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	428	2,080	673	–	–	3,181
Less: premiums ceded to reinsurers	(139)	(822)	(9)	–	–	(970)
Net premiums written	**289**	**1,258**	**664**	**–**	**–**	**2,211**
Fees and commissions	295	156	31	–	–	482
Income from other segments	–	–	–	605	(605)	–
Total segmental revenue	**584**	**1,414**	**695**	**605**	**(605)**	**2,693**

Of the revenue from external customers presented in the table above for the half year ended 30 June 2022, £2,250 million is attributable to customers in the United Kingdom ('UK') and £443 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) as at 30 June 2022 of £5,022 million located in the UK and £418 million located in the rest of the world.

Half year ended 30 June 2021	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	485	928	726	–	–	2,139
Less: premiums ceded to reinsurers	(163)	(351)	(12)	–	–	(526)
Net premiums written	322	577	714	–	–	1,613
Fees and commissions	318	146	26	–	–	490
Income from other segments	–	–	–	404	(404)	–
Total segmental revenue	640	723	740	404	(404)	2,103

Of the revenue from external customers presented in the table above for the half year ended 30 June 2021, £1,685 million is attributable to customers in the United Kingdom ('UK') and £418 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) as at 30 June 2021 of £4,281 million located in the UK and £439 million located in the rest of the world.

Year ended 31 December 2021	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	880	5,034	1,541	–	–	7,455
Less: premiums ceded to reinsurers	(284)	(1,739)	(56)	–	–	(2,079)
Net premiums written	596	3,295	1,485	–	–	5,376
Fees and commissions	634	297	70	–	–	1,001
Income from other segments	–	–	–	1,146	(1,146)	–
Total segmental revenue	1,230	3,592	1,555	1,146	(1,146)	6,377

Of the revenue from external customers presented in the table above for the year ended 31 December 2021, £5,448 million is attributable to customers in the UK and £929 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group had total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) as at 31 December 2021 of £5,245 million located in the UK and £410 million located in the rest of the world.

4. 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 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.

4.1 Calculation of the long-term investment return

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the start of each financial year.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15-year duration plus 36bps at the start of the period (half year ended 30 June 2021 and year ended 31 December 2021: 10bps). A risk premium of 334bps is added to the risk-free yield for equities (30 June 2021 and 31 December 2021: 349bps), 244bps for properties (30 June 2021 and 31 December 2021: 249bps) and 52bps for corporate bonds (30 June 2021 and 31 December 2021: 55bps). The overall increase in expected returns for these assets primarily reflects the increase in the risk-free rate experienced in 2021.

The principal assumptions underlying the calculation of the long-term investment return are:

	Half year ended 30 June 2022 %	Half year ended 30 June 2021 %	Year ended 31 December 2021 %
Equities	**4.6**	4.1	4.1
Properties	**3.7**	3.1	3.1
Corporate bonds	**1.8**	1.2	1.2

4.2 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.

The investment return variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Investment return variances and economic assumption changes on long-term business	**(1,076)**	(824)	(1,125)

The net adverse investment return variances and economic assumption changes on long-term business of £1,076 million in the first half of 2022 (half year ended 30 June 2021: adverse £824 million; year ended 31 December 2021: adverse £1,125 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 or Solvency Capital Requirements is not. Such items are actively valued under Solvency II requirements but are either not recognised on an IFRS basis or are not revalued unless there is evidence of impairment (e.g. AVIF). This leads to volatility in the Group's IFRS results.

Losses have been experienced on hedging positions held by the life companies principally as a result of rising yields and increasing inflation in the period. Continued strategic asset allocation initiatives undertaken by the Group, including investment in higher yielding assets, together with gains arising on equity hedges as markets fell over the period, provided a partial offset to the adverse variances experienced.

5. Tax (credit)/charge

5.1 Current period tax (credit)/charge

Income tax comprises current and deferred tax. Income tax is recognised in the condensed consolidated income statement except to the extent that it relates to items recognised in the condensed statement of consolidated comprehensive income or the condensed 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 period, using tax rates and laws enacted or substantively enacted at the date of the condensed statement of consolidated financial position together with adjustments to tax payable in respect of previous periods. 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 period.

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Current tax:			
UK corporation tax	**14**	(99)	(9)
Overseas tax	**48**	39	114
	62	(60)	105
Adjustment in respect of prior periods	**5**	8	(66)
Total current tax charge/(credit)	**67**	(52)	39
Deferred tax:			
Origination and reversal of temporary differences	**(764)**	109	120
Change in the rate of UK corporation tax	**(73)**	166	147
Write up of deferred tax assets	**(4)**	(10)	(27)
Total deferred tax (credit)/charge	**(841)**	265	240
Total tax (credit)/charge	**(774)**	213	279
Attributable to:			
• policyholders	**(471)**	174	258
• owners	**(303)**	39	21
Total tax (credit)/charge	**(774)**	213	279

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each period. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax credit attributable to policyholder earnings is £471 million (half year ended 30 June 2021: £174 million charge; year ended 31 December 2021: £258 million charge).

5.2 Tax (credited)/charged to other comprehensive income

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Current tax (credit)/charge	**(5)**	(1)	1
Deferred tax charge on defined benefit schemes	**160**	19	137
Total tax charge relating to other comprehensive income items	**155**	18	138

5.3 Tax credited to equity

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Current tax credit on Tier 1 Notes	(3)	(3)	(6)
Deferred tax on shares schemes	–	–	(1)
Total tax credit to equity	(3)	(3)	(7)

5.4 Reconciliation of tax (credit)/charge

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Loss before tax	(1,650)	(454)	(430)
Policyholder tax credit/(charge)	471	(174)	(258)
Loss before the tax attributable to owners	(1,179)	(628)	(688)
Tax credit at standard UK rate of 19%[1]	(224)	(119)	(131)
Non-taxable income and gains[2]	(5)	(7)	(10)
Disallowable expenses	–	5	19
Prior year tax credit for shareholders[3]	(3)	(3)	(7)
Movement on acquired in-force amortisation at rates other than 19%	13	13	34
Profits taxed at rates other than 19%[4]	(28)	(3)	(22)
Derecognition/(recognition) of previously unrecognised deferred tax assets[5]	17	(6)	(13)
Deferred tax rate change[6]	(73)	166	147
Current year losses not valued	4	7	1
Deferred consideration[7]	–	(12)	–
Other	(4)	(2)	3
Owners' tax (credit)/charge	(303)	39	21
Policyholder tax (credit)/charge	(471)	174	258
Total tax (credit)/charge for the period	(774)	213	279

1 The Phoenix operating segments are predominantly in the UK. The reconciliation of tax credit has therefore, been completed by reference to the standard rate of UK tax.
2 Primarily relates to non-taxable income and gains on pension schemes.
3 The prior year tax credit relates to true-ups from the 2021 tax reporting provisions in various entities within the group.
4 Profits taxed at rates other than 19% relates to life company profits which are also subject to marginal policyholder tax rates and profits subject to non UK tax rates.
5 Relates primarily to increased tax losses in Standard Life International DAC in relation to which a deferred tax asset cannot be recognised.
6 Deferred tax rate change relates primarily to movements in deferred tax liabilities on non-refundable pension scheme surplus which are expected to unwind at rates in excess of the current year rate of 19%.
7 The 2021 tax credit relates to deferred consideration proceeds in respect of a new agreement with abrdn plc.

The standard rate of UK corporation tax for the half year ended 30 June 2022 is 19% (half year ended 30 June 2021 and year ended 31 December 2021: 19%). An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the 2021 Budget which was substantively enacted on 24 May 2021. These new tax rates apply where appropriate for calculating deferred tax for the 2022 interim financial statements. Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward	142	50	55
Excess expenses and deferred acquisition costs	–	7	9
Intangibles	11	12	9
Deferred tax assets not recognised on capital losses	32	45	29

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.

6. 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 period.

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 computing earnings per share has been calculated as set out below.

Half year ended 30 June 2022	**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	**507**	**(103)**	**404**	**(1,583)**	**(1,179)**
Tax (charge)/credit attributable to owners	**(72)**	**20**	**(52)**	**355**	**303**
Profit/(loss) for the period attributable to owners	**435**	**(83)**	**352**	**(1,228)**	**(876)**
Coupon paid on Tier 1 notes, net of tax relief	**–**	**(12)**	**(12)**	**–**	**(12)**
Deduct: Share of result attributable to non-controlling interests	**–**	**–**	**–**	**(31)**	**(31)**
Profit/(loss) for the period attributable to ordinary equity holders of the parent	**435**	**(95)**	**340**	**(1,259)**	**(919)**

Half year ended 30 June 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	527	(111)	416	(1,044)	(628)
Tax (charge)/credit attributable to owners	(110)	23	(87)	48	(39)
Profit/(loss) for the period attributable to owners	417	(88)	329	(996)	(667)
Coupon paid on Tier 1 notes, net of tax relief	–	(12)	(12)	–	(12)
Deduct: Share of result attributable to non-controlling interests	–	–	–	(51)	(51)
Profit/(loss) for the period attributable to ordinary equity holders of the parent	417	(100)	317	(1,047)	(730)

Year ended 31 December 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)

The weighted average number of ordinary shares outstanding during the period is calculated as follows:

	Half year ended 30 June 2022 Number million	Half year ended 30 June 2021 Number million	Year ended 31 December 2021 Number million
Issued ordinary shares at beginning of the period	**1,000**	999	999
Own shares held by employee benefit trust	**(2)**	(1)	(1)
Weighted average number of ordinary shares	**998**	998	998

The diluted weighted average number of ordinary shares outstanding during the period is 1,001 (half year ended 30 June 2021: 1,001 million; year ended 31 December 2021: 1,001 million). The Group's long-term incentive plan, deferred bonus share scheme and sharesave schemes increased the weighted average number of shares on a diluted basis by 2,606,242 shares for the half year ended 30 June 2022 (half year ended 30 June 2021: 2,661,475; year ended 31 December 2021: 2,702,934 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 all periods presented.

Earnings per share disclosures are as follows:

	Half year ended 30 June 2022 pence	Half year ended 30 June 2021 pence	Year ended 31 December 2021 pence
Basic earnings per share	**(92.0)**	(73.3)	(86.4)
Diluted earnings per share	**(92.0)**	(73.3)	(86.4)
Basic operating earnings net of financing costs per share	**33.9**	31.9	79.2
Diluted operating earnings net of financing costs per share	**33.9**	31.8	79.0

7. Dividends on ordinary shares

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Dividend declared and paid	**248**	241	482

On 11 March 2022, the Board recommended a final dividend of 24.8p per share in respect of the year ended 31 December 2021. The dividend was approved at the Company's Annual General Meeting, which was held on 5 May 2022. The dividend amounted to £248 million and was paid on 9 May 2022.

8. Share capital

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Issued and fully paid:			
1,000.0 million (30 June 2021: 999.4 million; 31 December 2021: 999.5 million) ordinary shares of £0.10 each	**100**	100	100

Movements in share capital during the period:

2022	**Number**	**£**
Shares in issue at 1 January 2022	**999,536,058**	**99,953,605**
Ordinary shares issued in the period	**453,792**	**45,379**
Shares in issue at 30 June 2022	**999,989,850**	**99,998,984**

During the period, the Company issued 453,792 shares at a total premium of £2 million in order to satisfy its obligation to employees under the Group's sharesave schemes.

2021	Number	£
Shares in issue at 1 January 2021	999,232,144	99,923,214
Ordinary shares issued in the period	152,810	15,281
Shares in issue at 30 June 2021	999,384,954	99,938,495
Ordinary shares issued in the period	151,104	15,110
Shares in issue at 31 December 2021	999,536,058	99,953,605

During the year ended 31 December 2021, 303,914 shares were issued at a premium of £2 million (half year ended 30 June 2021: 152,810 million were issued at a premium of £1 million) in order to satisfy obligations to employees under the Group's sharesave schemes.

9. Other reserves

2022	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Total other reserves £m
At 1 January 2022	5	51	56
Other comprehensive expense for the period	–	(28)	(28)
At 30 June 2022	5	23	28

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 period	–	(6)	(6)
At 30 June 2021	**5**	**37**	**42**
Other comprehensive expense for the period	–	14	14
At 31 December 2021	**5**	**51**	**56**

In June 2021, the Group entered into four cross currency swaps which were designated as hedging instruments in order to effect cash flow hedges of the Group's Euro and US Dollar denominated borrowings. Hedge accounting has been adopted effective from the date of designation of the hedging relationship. The effective portion of changes in the fair value of these derivatives is recognised in other comprehensive income and accumulates within the 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.

10. Non-controlling interests

2022	APEOT £m
At 1 January 2022	**460**
Profit for the period	**31**
Dividends paid	**(5)**
At 30 June 2022	**486**

2021	APEOT £m
At 1 January 2021	341
Profit for the period	51
Dividends paid	(5)
At 30 June 2021	387
Profit for the period	77
Dividends paid	(4)
At 31 December 2021	460

The non-controlling interests of £486 million (half year ended 30 June 2021: £387 million; year ended 31 December 2021: £460 million) reflects third party ownership of abrdn Private Equity Opportunities Trust plc ('APEOT') (formerly known as Standard Life Private Equity Trust plc) determined at the proportionate value of the third party interest in the underlying assets and liabilities. APEOT is a UK Investment Trust listed and traded on the London Stock Exchange. As at 30 June 2022, the Group held 55.2% of the issued share capital of APEOT (30 June 2021: 55.2%; 31 December 2021: 55.2%).

The Group's interest in APEOT is held in the with-profit and unit-linked funds of the Group's life companies. Therefore the shareholder exposure to the results of APEOT is limited to the impact of those results on the shareholder share of distributed profits of the relevant fund.

11. Pension schemes

The condensed statement of consolidated financial position incorporates the pension scheme assets and liabilities of the PGL Pension Scheme, the Pearl Group Staff Pension Scheme ('Pearl Scheme'), the Abbey Life Staff Pension Scheme, the ReAssure Staff Pension Scheme and the ReAssure Private Retirement Trust as at 30 June 2022.

The PGL Pension Scheme previously entered into 'buy-in' agreements with Phoenix Life Limited ('PLL') in 2016 and 2019, which on completion, covered all the pensioner and deferred members of the Scheme. Plan assets were transferred to a collateral account and this transfer constituted the payment of premium to PLL. These assets are recognised in the relevant line within financial assets in the condensed 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.

The economic surplus of the PGL Pension Scheme amounted to £26 million (30 June 2021: £30 million; 31 December 2021: £26million). The carrying value of insurance policies effected by the PGL Pension Scheme with the Group of £1,230 million (30 June 2021: £1,653 million; 31 December 2021: £1,618million) is eliminated on consolidation. The remaining economic surplus is expected to cover future anticipated pension scheme administration expenses and consequently no deduction for the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme has been made. The resulting net pension scheme liability of the PGL Pension Scheme amounted to £1,204 million (30 June 2021: £1,623 million; 31 December 2021: £1,592million). The value of the collateral assets disclosed within financial assets in the condensed statement of consolidated financial position is £1,548 million (30 June 2021: £2,052 million; 31 December 2021: £2,084 million).

On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with Pearl Group Holdings (No.2) Limited 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 PLL covering 25% of the Scheme's pensioner in-payment and deferred member liabilities, transferring the associated risks including longevity improvement risk to PLL effective from 30 September 2020. In July 2021 and October 2021 two further buy-in tranches were completed, covering a further 35% and 15% respectively of the Scheme's pensioner in-payment and deferred member liabilities.

In total, the Scheme has transferred £2,232 million of plan assets to PLL as payment of premium. The assets transferred to PLL are recognised in the relevant line within financial assets in the condensed statement of consolidated 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 asset which is subsequently eliminated on consolidation. The economic surplus of the Pearl Scheme amounted to £248 million (30 June 2021: £492 million; 31 December 2021: £263 million) and the carrying value of insurance policies eliminated on consolidation were £1,277 million (30 June 2021: £564 million; 31 December 2021: £1,680million). The net pension scheme liability of the Pearl Scheme amounted to £1,116 million (30 June 2021: £245 million; 31 December 2021: £1,509million) after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme.

In March 2022, PLL entered into a quota share reinsurance arrangement with an external insurer to reinsure a further c.27% of the risks transferred to PLL as part of the third buy-in transaction with the Pearl Scheme. A total of c.91% of these liabilities have now been reinsured. A premium of £104 million was paid by PLL to the reinsurer. As PLL expects to use the claims received to pay for its obligations under the insurance contract between it and the Pearl scheme (i.e. to settle the defined benefit obligation) the reinsurance arrangement is considered to be a non-qualifying insurance policy and is classified as a reimbursement right. The reinsurance arrangement is expected to match a proportion of the defined benefit obligation of the Pearl Scheme therefore the valuation of the reimbursement right is consistent with the valuation of the associated defined benefit obligation. The value of the reimbursement right asset amounted to £231 million (31 December 2021: £212 million).

The pension scheme liability of the Abbey Life Staff Pension Scheme amounted to £1 million (30 June 2021: £52 million liability; 31 December 2021: £1 million asset). Pension scheme assets are stated after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding-up of the scheme and after adjusting for the irrecoverable amount of minimum funding requirement obligations.

The pension scheme asset of the ReAssure Staff Pension Scheme amounted to £34 million after deduction of the provision for tax on that part of the economic surplus available as a refund on a winding up of the scheme (30 June 2021: £21 million; 31 December 2021: £35million).

The pension scheme liability of the ReAssure Private Retirement Trust amounted to £2 million (30 June 2021 and 31 December 2021: £2 million).

12. Liabilities under insurance contracts – assumptions

12.1 Valuation of participating insurance and investment contracts and contracts with discretionary participation features

For participating business, which is with-profit business (insurance and investment contracts with discretionary participating features), 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.

12.2 Valuation of non-participating insurance contracts

The non-participating insurance contract liabilities are determined using either a net premium or gross premium valuation method.

12.3 Process used to determine assumptions

In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group uses a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 36bps (half year ended 30 June 2021: 10bps; year ended 31 December 2021: 36bps). For certain non-participating business, (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.

For participating insurance business in realistic basis companies the assumptions about future demographic trends represent best estimates. They are determined after considering the companies' recent experience and/or relevant industry data. Economic assumptions are market consistent.

For non-participating insurance business, demographic assumptions are derived by setting assumptions at management's best estimates and recognising an explicit margin for demographic risks.

During the period, a number of changes were made to assumptions to reflect changes in expected experience or to reflect transition activity. The impact of material changes that impacted the result attributable to owners during the period was as follows:

	Increase in insurance liabilities 30 June 2022 £m	(Decrease)/increase in insurance liabilities 30 June 2021 £m	(Decrease)/increase in insurance liabilities 31 December 2021 £m
Change in longevity assumptions	**–**	–	(272)
Change in persistency assumptions	**15**	(10)	(12)
Change in mortality assumptions	**–**	3	(7)
Change in expense assumptions	**121**	50	275

At 30 June 2022, the £15 million negative impact of changes in persistency assumptions reflects the results of the latest experience investigations. The £121 million negative impact of changes in expense assumptions principally reflects the increase in reserves for the anticipated costs associated with the implementation of IFRS 17 and delivery of the Group Target Operating Model for IT and Operations.

At 30 June 2021, the £50 million impact of changes in expense assumptions included £35 million in relation to additional costs expected to be incurred for the delivery of the Group Target Operating Model for IT and Operations.

At 31 December 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 £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.

13. Borrowings

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Carrying value			
£200 million multi-currency revolving credit facility	37	–	17
Property reversions loan	64	74	70
Total policyholder borrowings	101	74	87
£300 million senior unsecured bond	–	122	–
£428 million Tier 2 subordinated notes	427	427	427
£450 million Tier 3 subordinated notes	450	449	450
US $500 million Tier 2 bonds	410	360	368
€500 million Tier 2 bonds	426	424	416
US $750 million Contingent Convertible Tier 1 notes	613	538	551
£500 million Tier 2 notes	487	485	485
US $500 million Fixed Rate Reset Tier 2 notes	409	359	368
£500 million 5.867% Tier 2 subordinated notes	546	553	550
£250 million Fixed Rate Reset Callable Tier 2 subordinated notes	263	269	266
£250 million 4.016% Tier 3 subordinated notes	256	258	257
Total shareholder borrowings	4,287	4,244	4,138
Total borrowings	4,388	4,318	4,225

See note 18 for details of movements in the Group's borrowings post 30 June 2022.

14. Financial instruments

14.1 Fair values

The table below sets out a comparison of the carrying amounts and fair values of financial instruments.

	30 June 2022		30 June 2021		31 December 2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets measured at carrying and fair values						
Financial assets at fair value through profit or loss ('FVTPL'):						
Held for trading – derivatives	3,372	3,372	4,708	4,708	4,571	4,571
Designated upon initial recognition:						
Equities	76,002	76,002	86,436	86,436	87,059	87,059
Investment in associate	422	422	444	444	431	431
Debt securities	89,814	89,814	104,310	104,310	106,990	106,990
Collective investment schemes	81,423	81,423	90,489	90,489	90,164	90,164
Reinsurers' share of investment contract liabilities	9,120	9,120	9,732	9,732	10,009	10,009
Financial assets measured at amortised cost:						
Loans and deposits	405	405	649	649	475	475
Total financial assets	260,558	260,558	296,768	296,768	299,699	299,699
Less amounts classified as held for sale (see note 2)	(5,423)	(5,423)	(8,390)	(8,390)	(6,507)	(6,507)
Total financial assets less amounts classified as held for sale	255,135	255,135	288,378	288,378	293,192	293,192

	30 June 2022		30 June 2021		31 December 2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial liabilities measured at carrying and fair values						
Financial liabilities at FVTPL:						
Held for trading – derivatives	4,093	4,093	1,104	1,104	1,252	1,252
Designated upon initial recognition:						
Borrowings	64	64	74	74	70	70
Net asset value attributable to unitholders	3,312	3,312	3,666	3,666	3,568	3,568
Investment contract liabilities	154,764	154,764	170,131	170,131	172,093	172,093
Financial liabilities measured at amortised cost:						
Borrowings	4,324	4,172	4,244	4,284	4,155	4,564
Deposits received from reinsurers	2,994	2,994	3,770	3,770	3,569	3,569
Obligations for repayment of collateral received	1,645	1,645	3,482	3,482	3,442	3,442
Total financial liabilities	171,196	171,044	186,471	186,511	188,149	188,558
Less amounts classified as held for sale (see note 2)	(10,432)	(10,432)	(13,527)	(13,527)	(11,680)	(11,680)
Total financial liabilities less amounts classified as held for sale	160,764	160,612	172,944	172,984	176,469	176,878

14.2 Fair value hierarchy

14.2.1 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 indicates a higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments

Financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs, are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified at Level 2, only where there is a sufficient range of available quotes. The fair value of over the counter derivatives is estimated using pricing models or discounted cash flow techniques. Collective investment schemes where the underlying assets are not priced using active market prices are determined to be Level 2 instruments. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flows are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments

The Group's financial instruments determined by valuation techniques using non-observable market inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, non-observable third party evidence in the form of net asset valuation statements are 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 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.

14.2.2 Fair value hierarchy of financial instruments measured at fair value

At 30 June 2022

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	227	2,959	186	3,372
Financial assets designated at FVTPL upon initial recognition:				
Equities	73,978	30	1,994	76,002
Investment in associate	422	–	–	422
Debt securities	51,417	26,741	11,656	89,814
Collective investment schemes	78,849	2,153	421	81,423
Reinsurers' share of investment contract liabilities	9,120	–	–	9,120
	213,786	28,924	14,071	256,781
Total financial assets measured at fair value	214,013	31,883	14,257	260,153
Less amounts classified as held for sale (see note 2)	(4,375)	(133)	(915)	(5,423)
Total financial assets measured at fair value less amounts classified as held for sale	209,638	31,750	13,342	254,730

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	122	3,747	224	4,093
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	64	64
Net asset value attributable to unitholders	3,312	–	–	3,312
Investment contract liabilities	–	154,764	–	154,764
	3,312	154,764	64	158,140
Total financial liabilities measured at fair value	3,434	158,511	288	162,233
Less amounts classified as held for sale (see note 2)	(1)	(10,431)	–	(10,432)
Total financial liabilities measured at fair value less amounts classified as held for sale	3,433	148,080	288	151,801

At 30 June 2021

	Level 1 Restated[1] £m	Level 2 £m	Level 3 Restated[1] £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	296	4,172	240	4,708
Financial assets designated at FVTPL upon initial recognition:				
Equities	84,696	54	1,686	86,436
Investment in associate	444	–	–	444
Debt securities	68,269	25,232	10,809	104,310
Collective investment schemes	88,018	2,157	314	90,489
Reinsurers' share of investment contract liabilities	9,732	–	–	9,732
Total financial assets measured at fair value	251,159	27,443	12,809	291,411
Less amounts classified as held for sale (see note 2)[1]	(7,304)	(234)	(852)	(8,390)
Total financial assets measured at fair value, excluding amounts classified as held for sale	244,151	31,381	12,197	287,729

1 The fair value hierarchy for the financial assets classified as held for sale as at 30 June 2021 has been restated to reclassify £844 million of debt securities from Level 1 to Level 3.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	83	906	115	1,104
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	74	74
Net asset value attributable to unitholders	3,666	–	–	3,666
Investment contract liabilities	–	170,131	–	170,131
	3,666	170,131	74	173,871
Total financial liabilities measured at fair value	3,749	171,037	189	174,975
Less amounts classified as held for sale (see note 2)	(1)	(13,526)	–	(13,527)
Total financial liabilities measured at fair value less amounts classified as held for sale	3,748	157,511	189	161,448

At 31 December 2021

	Level 1 Restated[1] £m	Level 2 Restated[1] £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	87,277	2,601	286	90,164
Reinsurers' share of investment contract liabilities	10,009	–	–	10,009
	240,817	**39,199**	**14,637**	**294,653**
Total financial assets measured at fair value	**240,978**	**43,372**	**14,874**	**299,224**
Less Amounts classified as held for sale (see note 2)	(5,194)	(421)	(892)	(6,507)
Total financial assets measured at fair value, excluding amounts classified as held for sale	235,784	42,951	13,982	292,717

1 The fair value hierarchy as at 31 December 2021 has been restated to reclassify £1,033 million of Collective investment schemes from Level 2 to Level 1.

	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	155	972	125	1,252
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	70	70
Net asset value attributable to unitholders	3,568	–	–	3,568
Investment contract liabilities	–	172,093		172,093
	3,568	**172,093**	**70**	**175,731**
Total financial liabilities measured at fair value	**3,723**	**173,065**	**195**	**176,983**
Less amounts classified as held for sale	–	(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**

14.2.3 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.

Debt securities

Analysis of Level 3 debt securities	**30 June 2022 £m**	30 June 2021 Restated £m	31 December 2021 Restated £m
Unquoted corporate bonds:			
Loans guaranteed by export credit agencies & supranationals[1]	**348**	220	219
Private corporate credit[1]	**1,285**	1,433	1,488
Infrastructure loans – project finance[1]	**850**	805	967
Infrastructure loans – corporate[1]	**999**	840	1,074
Loans to housing associations[1]	**790**	876	1,022
Local authority loans	**752**	737	917
Equity release mortgages	**4,102**	3,558	4,214
Commercial real estate loans	**1,260**	1,142	1,317
Income strips	**910**	844	886
Bridging loans to private equity funds	**359**	342	339
Other	**1**	12	9
Total Level 3 debt securities	**11,656**	10,809	12,452
Less amounts classified as held for sale[2]	**(915)**	(852)	(892)
	10,741	9,957	11,560

1 At 31 December 2021 £1,632 million (30 June 2021: £1,146 million) of private corporate credit assets have been reclassified as loans guaranteed by export credit agencies & supranationals (31 December 2021: £60 million; 30 June 2021: £220 million), infrastructure loans (31 December 2021: £550 million; 30 June 2021: £50 million) and loans to housing associations (31 December 2021: £1,022 million; 30 June 2021: £876 million).

2 The fair value hierarchy for the financial assets classified as held for sale as at 30 June 2021 has been restated to reclassify £844 million of debt securities from Level 1 to Level 3.

The Group holds unquoted corporate bonds with a total value of £5,024 million (30 June 2021: £4,911 million; 31 December 2021: £5,687 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 £368 million (30 June 2021: £387 million; 31 December 2021: £468 million) and a decrease of 65bps would increase the value by £403 million (30 June 2021: £419 million; 31 December 2021: £513 million).

Included within debt securities are investments in equity release mortgages with a value of £4,102 million (30 June 2021: £3,558 million; 31 December 2021: £4,214 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables, entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption.

Cash flows are discounted using a risk-free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of ERM loans.

Considering the fair valuation uses certain inputs that are not market observable, the fair value measurement of these loans has been categorised as a Level 3 fair value. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin, age and loan to value ratio of each portfolio. Experience analysis is used to inform this assumption; however, where experience is limited for more recently originated loans, significant expert judgement is required.

The significant sensitivities arise from movements in the yield curve, inflation rate, house prices and the voluntary redemption rate. An increase of 100bps in the yield curve would decrease the value by £386 million (30 June 2021: £355 million; 31 December 2021: £443 million) and a decrease of 100bps would increase the value by £441 million (30 June 2021: £405 million; 31 December 2021: £512 million). An increase of 1% in the inflation rate would increase the value by £11 million (30 June 2021: £21 million; 31 December 2021: £26 million) and a decrease of 1% would decrease the value by £23 million (30 June 2021: £37 million; 31 December 2021: £43 million).

An increase of 10% in house prices would increase the value by £14 million (30 June 2021: £11 million; 31 December 2021: £13 million) and a decrease of 10% would decrease the value by £24 million (30 June 2021: £22 million; 31 December 2021: £23 million). An increase of 5% in mortality would decrease the value by £2 million (30 June 2021: £8 million; 31 December 2021: £10 million) and a decrease of 5% in mortality would increase the value by £3 million (30 June 2021: £4 million; 31 December 2021: £9 million). An increase of 15% in the voluntary redemption rate would decrease the value by £11 million (30 June 2021: £14 million; 31 December 2021: £22 million) and a decrease of 15% in the voluntary redemption rate would increase the value by £13 million (30 June 2021: £11 million; 31 December 2021: £23 million).

The Group also holds investments in commercial real estate loans with a value of £1,260 million (30 June 2021: £1,142 million; 31 December 2021: £1,317 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 (30 June 2021: £19 million; 31 December 2021: £24 million) and a decrease of 65bps would increase the value by £25 million (30 June 2021: £22 million; 31 December 2021: £24 million).

Also included within debt securities are income strips with a value of £910 million (30 June 2021: £844 million; 31 December 2021: £886 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 £86 million (30 June 2021: £88 million; 31 December 2021: £94 million) and a decrease of 35bps would increase the value by £113 million (30 June 2021: £114 million; 31 December 2021: £121 million).

Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £64 million (30 June 2021: £74 million; 31 December 2021: £70 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate. An increase in the discount rate of 1% would decrease the value by £1 million (30 June 2021: £1 million; 31 December 2021: £1 million) and a decrease of 1% would increase the value by £1 million (30 June 2021: £1 million; 31 December 2021: £1 million).

Derivatives

Included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £185 million (30 June 2021: £228 million; 31 December 2021: £230 million) and £46 million (30 June 2021: £43 million; 31 December 2021: £49 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the net value by £25 million (30 June 2021: £36million; 31 December 2021: £28 million) and a decrease of 100bps would increase the net value by £39 million (30 June 2021: £48 million; 31 December 2021: £35 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £5 million (30 June 2021: £18 million; 31 December 2021: £8 million) and a decrease of 1% would decrease the value by £9 million (30 June 2021: £29 million; 31 December 2021: £8 million).

Included within derivative assets and liabilities are forward local authority loans, forward private corporate credit, forward housing association loans and forward infrastructure loans with a fair value of £1 million (30 June 2021: £12 million; 31 December 2021: £7 million) and £109 million (30 June 2021: £3 million; 31 December 2021: £9 million) respectively. 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 £41 million (30 June 2021: £25 million; 31 December 2021: £30 million) and a decrease of 65bps would increase the value by £46 million (30 June 2021: £28 million; 31 December 2021: £31 million).

Also included within derivative liabilities is the Equity Release Income Plan ('ERIP') total return swap with a value of £69 million (30 June 2021: £69 million; 31 December 2021: £67 million), under which a share of the disposal proceeds arising on a portfolio of property reversions is payable to a third party. The carrying value of the financial liability is the discounted present value of all future property sales that will be passed to the counterparty as part of the swap arrangement. The valuation is sensitive to the discount rate applied. An increase of 1% in the discount rate would decrease the value by £2 million (30 June 2021: £2 million; 31 December 2021: £2 million) and a decrease of 1% in the discount rate would increase the value by £2 million (30 June 2021: £2 million; 31 December 2021: £2 million).

14.2.4 Transfers of financial instruments between Level 1 and Level 2

At 30 June 2022

	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:		
Equities	**4**	**4**
Collective investment schemes	**88**	**–**
Debt securities	**629**	**3,009**

At 30 June 2021

	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	3,003	1,160

At 31 December 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

Consistent with the prior year, all the Group's Level 1 and Level 2 assets have been valued using standard market pricing sources.

The application of the Group's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads for debt securities resulted in assets being moved from Level 2 to Level 1, and from Level 1 to Level 2.

14.2.5 Movement in Level 3 financial instruments measured at fair value

30 June 2022

	At 1 January 2022 £m	Net (losses)/gains in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2022[1] £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	237	(51)	–	–	–	–	186	(51)
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,899	182	203	(252)	–	(38)	1,994	75
Debt securities	12,452	(1,925)	1,833	(723)	25	(6)	11,656	(1,916)
Collective investment schemes	286	10	126	(1)	–	–	421	11
	14,637	(1,733)	2,162	(976)	25	(44)	14,071	(1,830)
Total financial assets	14,874	(1,784)	2,162	(976)	25	(44)	14,257	(1,881)

1 Total financial assets of £14,257 million includes £915 million of assets classified as held for sale.

	At 1 January 2022 £m	Net losses in income statement £m	Effect of purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2022 £m	Unrealised losses on liabilities held at end period £m
Financial liabilities								
Derivatives	125	104	–	(5)	–	–	224	102
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	70	–	–	(6)	–	–	64	–
Total financial liabilities	195	104	–	(11)	–	–	288	102

Gains and losses on Level 3 financial instruments are included in net investment income in the condensed consolidated income statement. There were no gains or losses recognised in other comprehensive income in either the current or comparative periods.

30 June 2021

	At 1 January 2021 £m	Net (losses)/gains in income statement £m	Effect of purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2021[1] £m	Unrealised (losses)/gains on assets held at end of period £m
Financial assets								
Derivatives	198	(71)	113	–	–	–	240	(79)
Financial assets designated at FVTPL upon initial recognition:								
Equities	1,563	184	103	(162)	–	(2)	1,686	132
Debt securities	10,164	(261)	2,244	(1,357)	28	(9)	10,809	(362)
Collective investment schemes	401	(35)	16	(68)	–	–	314	45
	12,128	(112)	2,363	(1,587)	28	(11)	12,809	(185)
Total financial assets	12,326	(183)	2,476	(1,587)	28	(11)	13,049	(264)

1 Total financial assets of £13,049 million includes £852 million of assets classified as held for sale. The fair value hierarchy for the financial assets classified as held for sale as at 30 June 2021 has been restated to reclassify £844 million of debt securities from Level 1 to Level 3.

	At 1 January 2021 £m	Net (gains)/losses in income statement £m	Effect of purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 30 June 2021 £m	Unrealised (gains)/losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	162	(37)	–	(10)	–	–	115	(42)
Financial liabilities designated at FVTPL upon initial recognition:								
Borrowings	84	(1)	–	(9)	–	–	74	(1)
Total financial liabilities	246	(38)	–	(19)	–	–	189	(43)

31 December 2021

	At 1 January 2021 £m	Net (losses)/gains 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 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.

	At 1 January 2021 £m	Net (gains)/ losses in income statement £m	Effect of acquisitions/ purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2021	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)

15. Cash flows from operating activities

The following analysis gives further detail behind the 'cash (utilised)/generated by operations' figure in the condensed statement of consolidated cash flows.

	Half year ended 30 June 2022 £m	Half year ended 30 June 2021 £m	Year ended 31 December 2021 £m
Loss for the period before tax	**(1,650)**	(454)	(430)
Non-cash movements in profit for the period before tax			
Gain on completion of abrdn plc transaction	**–**	(110)	(110)
Loss on disposal of Ark Life, excluding transaction costs	**–**	–	17
Fair value (gains)/losses on:			
Investment property	**(482)**	(371)	(1,195)
Financial assets and derivative liabilities	**36,021**	(3,960)	(9,436)
Change in fair value of borrowings	**154**	(35)	(9)
Amortisation and impairment of intangible assets	**261**	303	644
Change in unallocated surplus	**(177)**	(79)	(106)
Share-based payment charge	**8**	6	14
Finance costs	**116**	123	242
Net interest expense on Group defined benefit pension scheme liability/asset	**27**	16	37
Other costs of pension schemes	**3**	3	6
Decrease in investment assets	**4,829**	4,907	6,738
Decrease/(increase) in reinsurance assets	**2,004**	742	(227)
Decrease in assets classified as held for sale	**949**	–	286
(Decrease)/increase in insurance contract and investment contract liabilities	**(34,768)**	500	6,354
Decrease in deposits received from reinsurers	**(580)**	(315)	(521)
Decrease in obligation for repayment of collateral received	**(1,799)**	(1,722)	(1,762)
Decrease in liabilities classified as held for sale	**(1,254)**	–	(264)
Net increase in working capital	**(1,529)**	(801)	(1,100)
Other items:			
Contributions to defined benefit pension schemes	**(5)**	(5)	(49)
Cash generated/(utilised) by operations	**2,128**	(1,252)	(871)

16. 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 2.1 for further details). This included the dissolution of the Client Service and Proposition Agreement entered into between the two groups following the acquisition of the Standard Life businesses in 2018. Following the completion of this transaction, it was assessed that abrdn plc no longer had significant influence over the Group and as a result was no longer considered a related party from the date of the new agreement.

In 2021, in the period during which abrdn plc was a related party, investment management fees of £20 million and other fees of £4 million were payable by the Group to abrdn plc. Balances outstanding as at the date abrdn plc ceased to be a related party of the Group were settled prior to 30 June 2021.

The related party transactions with abrdn plc were the only related party transactions considered to have a material effect on either the results or financial position of the Group.

17. Contingent liabilities

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.

18. Events after the reporting period

On 20 July 2022, the Group redeemed its £450 million Tier 3 subordinated notes in full at their principal amount, together with interest accrued to the repayment date.

On 4 August 2022, the Company announced the proposed acquisition of the entire issued share capital of SLF of Canada UK Limited from the Sun Life Assurance Company of Canada. The acquisition was approved by the Board prior to announcement and remains subject to regulatory approval. Total cash consideration of £248 million is payable to the Sun Life Assurance Company of Canada upon completion, subject to certain adjustments.

On 12 August 2022, the Board declared an interim dividend per share of 24.8p for the half year ended 30 June 2022 (half year ended 30 June 2021: 24.1p; year ended 31 December 2021: 24.8p). The cost of this dividend has not been recognised as a liability in the interim financial statements for the half year ended 30 June 2022 and will be charged to the statement of consolidated changes in equity when paid.

Additional life company asset disclosures

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies, and it is stated net of derivative liabilities. It excludes other Group assets such as cash held in the holding and management service companies and the assets held by the non-controlling interest in consolidated collective investment schemes. The information is presented on a look-through basis into the underlying funds.

The following table provides an overview of the exposure by asset category of the Group's life companies' shareholder and policyholder funds:

30 June 2022

Carrying value	Shareholder and non-profit funds[1] £m	Participating supported[1] £m	Participating non-supported[2] £m	Unit-linked[2] £m	Total £m
Cash and cash equivalents	4,396	1,349	6,786	8,989	21,520
Debt securities – gilts and foreign government bonds	5,345	270	16,414	12,057	34,086
Debt securities – other government and supranationals	2,046	274	1,867	3,001	7,188
Debt securities – infrastructure loans – project finance[3]	899	–	–	–	899
Debt securities – infrastructure loans – corporate[4]	1,034	–	1	–	1,035
Debt securities – local authority loans[5]	823	–	8	5	836
Debt securities – loans guaranteed by export credit agencies and supranationals[6]	467	–	–	–	467
Debt securities – private corporate credit[7]	1,638	–	142	14	1,794
Debt securities – loans to housing associations[8]	882	–	8	3	893
Debt securities – commercial real estate loans[9]	1,260	–	–	–	1,260
Debt securities – equity release mortgages[9]	4,102	–	–	–	4,102
Debt securities – other debt securities	15,298	1,248	13,835	23,330	53,711
	33,794	1,792	32,275	38,410	106,271
Equity securities	107	51	17,240	103,091	120,489
Property investments	70	24	2,214	7,793	10,101
Income strips[9]	–	–	–	910	910
Other investments[10]	(791)	(160)	1,270	8,986	9,305
Total Life Company assets	37,576	3,056	59,785	168,179	268,596
Less assets held by disposal groups[11]	–	–	–	(10,428)	(10,428)
At 30 June 2022	37,576	3,056	59,785	157,751	258,168
Cash and cash equivalents in Group holding companies					1,226
Cash and financial assets in other Group companies					1,088
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,882
Financial assets in consolidated funds held by disposal groups[11]					1,502
Total Group consolidated assets excluding amounts classified as held for sale					266,866
Comprised of:					
Investment property					5,082
Financial assets					255,135
Cash and cash equivalents					10,738
Derivative liabilities					(4,089)
					266,866

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 Total infrastructure loans – project finance of £899 million include £850 million classified as Level 3 debt securities in the fair value hierarchy.
4 Total infrastructure loans – corporate of £1,035 million include £999 million classified as Level 3 debt securities in the fair value hierarchy.
5 Total local authority loans of £836 million include £752 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total loans guaranteed by export credit agencies and supranationals of £467 million include £348 million classified as Level 3 debt securities in the fair value hierarchy.
7 Total private corporate credit of £1,794 million include £1,285 million classified as Level 3 debt securities in the fair value hierarchy.
8 Total loans to housing associations of £893 million include £790 million classified as Level 3 debt securities in the fair value hierarchy.
9 All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.
10 Includes policy loans of £11 million, other loans of £254 million, net derivative liabilities of £(763) million, reinsurers' share of investment contracts of £9,120 million and other investments of £683 million.
11 See note 2 to the consolidated interim financial statements for further details.

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 £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 supranationals	2,381	318	2,088	3,051	7,838
Debt securities – infrastructure loans – project finance[3,4]	1,026	–	1	–	1,027
Debt securities – infrastructure loans – corporate[3,5]	1,118	–	–	–	1,118
Debt securities – local authority loans and US municipal bonds[3,6]	1,140	–	10	6	1,156
Debt securities – loans guaranteed by export credit agencies and supranationals[3,7]	373	–	–	–	373
Debt securities – private corporate credit[3,8]	1,928	1	169	27	2,125
Debt securities – loans to housing associations[3,9]	1,161	–	9	3	1,173
Debt securities – commercial real estate loans[3,10]	1,317	–	–	–	1,317
Debt securities – equity release mortgages[3,10]	4,214	–	–	–	4,214
Debt securities – other debt securities	16,713	1,432	16,274	28,218	62,637
	40,058	**2,062**	**39,174**	**45,475**	**126,769**
Equity securities	122	61	20,386	113,779	134,348
Property investments	76	26	2,248	7,906	10,256
Income strips[3,10]	–	–	–	886	886
Other investments[11]	623	341	3,098	10,119	14,181
Total Life Company assets	**46,316**	**4,134**	**72,009**	**187,856**	**310,315**
Less assets held by disposal groups[12]	–	–	–	(11,676)	(11,676)
At 31 December 2021	**46,316**	**4,134**	**72,009**	**176,180**	**298,639**
Cash and cash equivalents in Group holding companies					964
Cash and financial assets in other Group companies					793
Financial assets held by the non-controlling interest in consolidated collective investment schemes					4,155
Financial assets in consolidated funds held by disposal groups[12]					1,788
Total Group consolidated assets excluding amounts classified as held for sale					306,339
Comprised of:					
Investment property					5,283
Financial assets					293,192
Cash and cash equivalents					9,112
Derivative liabilities					(1,248)
					306,339

1 Includes assets where shareholders of the life companies bear the investment risk.
2 Includes assets where policyholders bear most of the investment risk.
3 The illiquid asset classes have been represented to align with those used in the Group's Internal Model.
4 Total infrastructure loans – project finance of £1,027 million include £967 million classified as Level 3 debt securities in the fair value hierarchy.
5 Total infrastructure loans – corporate of £1,118 million include £1,074 million classified as Level 3 debt securities in the fair value hierarchy.
6 Total local authority loans and US municipal bonds of £1,156 million include £919 million classified as Level 3 debt securities in the fair value hierarchy.
7 Total loans guaranteed by export credit agencies and supranationals of £373 million include £219 million classified as Level 3 debt securities in the fair value hierarchy.
8 Total private corporate credit of £2,125 million include £1,485 million classified as Level 3 debt securities in the fair value hierarchy.
9 Total loans to housing associations of £1,173 million include £1,022 million classified as Level 3 debt securities in the fair value hierarchy.
10 All commercial real estate loans, equity release mortgages and income strips are classified as Level 3 debt securities in the fair value hierarchy.
11 Includes policy loans of £11 million, other loans of £248 million, net derivative assets of £3,309 million, reinsurers' share of investment contracts of £10,009 million and other investments of £604 million.
12 See note 2 to the consolidated interim financial statements for further details.

The following table provides a reconciliation of the total life company assets to Assets Under Administration ('AUA') as detailed in the Business Review on page 14.

	At 30 June 2022 £bn	At 31 December 2021 £bn
Total Life Company assets excluding amounts classified as held for sale	**258.2**	298.6
Off-balance sheet AUA[1]	**10.6**	11.8
Assets Under Administration	**268.8**	310.4

1 Off-balance sheet AUA represents assets held in respect of certain Group Self-Invested Personal Pension products where the beneficial ownership interest resides with the customer (and which are therefore not recognised in the condensed statement of consolidated financial position) but on which the Group earns fee revenue.

All of the life companies' debt securities are held at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, and therefore already reflect any reduction in value between the date of purchase and the reporting date.

The life companies have in place a comprehensive database that consolidates credit exposures across counterparties, geographies and business lines. This database is used for credit monitoring, stress testing and scenario planning. The life companies continue to manage their balance sheets prudently and have taken extra measures to ensure their market exposures remain within risk appetite.

For each of the life companies' significant financial institution counterparties, industry and other data has been used to assess the exposure of the individual counterparties. As part of the Group's risk appetite framework and analysis of shareholder exposure to a potential worsening of the economic situation, this assessment has been used to identify counterparties considered to be most at risk from defaults. The financial impact on these counterparties, and the contagion impact on the rest of the shareholder portfolio, is assessed under various scenarios and assumptions. This analysis is regularly reviewed to reflect the latest economic outlook, economic data and changes to asset portfolios. The results are used to inform the Group's views on whether any management actions are required.

The table below shows the Group's market exposure analysed by credit rating for the shareholder debt portfolio, which comprises of debt securities held in the shareholder and non-profit funds:

Sector analysis of shareholder bond portfolio	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	303	318	611	–	1,232
Basic materials	–	1	150	19	–	170
Consumer, cyclical	–	375	432	276	141	1,224
Technology and telecoms	186	367	571	743	7	1,874
Consumer, non-cyclical	254	372	1,081	342	12	2,061
Structured finance	–	–	48	–	–	48
Banks[2]	514	537	2,510	448	16	4,025
Financial services	99	299	204	127	8	737
Diversified	–	5	28	–	–	33
Utilities	22	121	832	1,326	–	2,301
Sovereign, sub-sovereign and supranationals[3]	1,144	6,505	638	130	9	8,426
Real estate	24	141	2,786	970	112	4,033
Investment companies	23	136	6	2	–	167
Insurance	19	400	337	70	8	834
Oil and gas	–	141	372	42	–	555
Collateralised debt obligations	–	7	–	–	–	7
Private equity loans	–	–	8	24	–	32
Infrastructure loans	–	16	236	1,469	212	1,933
Equity release mortgages[4]	2,093	1,040	945	–	24	4,102
At 30 June 2022	4,378	10,766	11,502	6,599	549	33,794

1 Includes unrated holdings of £80 million.
2 The £4,025 million total shareholder exposure to bank debt comprised £3,340 million senior debt and £685 million subordinated debt.
3 Includes £823 million reported as local authority loans, £57 million reported as private corporate credit and £155 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 62.
4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.

Sector analysis of shareholder bond portfolio [5]	AAA £m	AA £m	A £m	BBB £m	BB & below[1] £m	Total £m
Industrials	–	165	329	820	6	1,320
Basic materials	–	1	166	29	–	196
Consumer, cyclical	11	438	461	302	148	1,360
Technology and telecoms	165	268	592	735	3	1,763
Consumer, non-cyclical	258	271	966	338	–	1,833
Structured finance	–	–	52	–	–	52
Banks[2]	662	769	2,750	578	19	4,778
Financial services	51	281	382	147	5	866
Diversified	–	6	28	–	–	34
Utilities	25	121	1,304	1,272	2	2,724
Sovereign, sub-sovereign and supranational[3]	1,465	9,983	827	109	–	12,384
Real estate	27	183	3,364	757	254	4,585
Investment companies	30	200	2	–	–	232
Insurance	16	428	426	38	22	930
Oil and gas	–	147	381	81	–	609
Collateralised debt obligations	–	8	–	–	–	8
Private equity loans	–	–	–	26	–	26
Infrastructure loans	–	84	236	1,620	204	2,144
Equity release mortgages[4]	2,085	1,144	963	–	22	4,214
At 31 December 2021	4,795	14,497	13,229	6,852	685	40,058

1 Includes unrated holdings of £113 million.
2 The £4,778 million total shareholder exposure to bank debt comprised £3,732 million senior debt and £1,046 million subordinated debt.
3 Includes £1,069 million reported as local authority loans & US municipal bonds, £42 million reported as private corporate credit and £205 million reported as loans guaranteed by export credit agencies and supranationals in the summary table on page 63.
4 The credit ratings attributed to equity release mortgages are based on the ratings assigned to the internal securitised loan notes.
5 The illiquid asset classes have been represented to align with those used in the Group's Internal Model.

Additional capital disclosures

PGH plc Solvency II Surplus

The estimated PGH plc surplus at 30 June 2022 is £4.7 billion (31 December 2021: £5.3 billion).

	30 June 2022 Estimated £bn	31 December 2021 £bn
Own Funds	**12.4**	14.8
SCR	**(7.7)**	(9.5)
Surplus	**4.7**	5.3

The Eligible Own Funds reflects a dynamic recalculation of TMTP. Had this not been performed, the surplus would have been £0.4 billion higher.

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:

	30 June 2022 Estimated £bn	31 December 2021 £bn
Tier 1 – Unrestricted	**8.1**	9.9
Tier 1 – Restricted	**1.1**	1.1
Tier 2	**2.8**	2.9
Tier 3	**0.4**	0.9
Total Own Funds	**12.4**	14.8

PGH plc's unrestricted Tier 1 capital accounts for 65% (31 December 2021: 67%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Restricted Tier 1 capital comprises the contingent convertible Tier 1 Notes issued in January 2020 and the Tier 1 Notes issued in April 2018, the terms of which enable the notes to qualify as restricted Tier 1 capital for regulatory reporting purposes.

Tier 2 capital is comprised of subordinated notes whose terms enable them to qualify as Tier 2 capital for regulatory reporting purposes.

Tier 3 items include the Tier 3 subordinated notes of £0.2 billion (31 December 2021: £0.7 billion) and the deferred tax asset of £0.2 billion (31 December 2021: £0.2 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:

	30 June 2022 Estimated		31 December 2021	
	Harmonised Internal Model %	ReAssure and SLIDAC Standard Formula %	Harmonised Internal Model %	ReAssure and SLIDAC Standard Formula %
Longevity	16	19	22	21
Credit	18	21	18	21
Persistency	20	24	20	22
Interest rates	10	8	9	8
Operational	7	4	6	3
Swap spreads	1	–	3	–
Property	4	1	4	1
Other market risks	13	12	12	14
Other non-market risks	11	11	6	10
Total pre-diversified SCR	100	100	100	100

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 MCRs of the underlying insurance companies.

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 30 June 2022 is £2.4 billion (31 December 2021: £3.0 billion).

PGH plc's Eligible Own Funds to cover the MGSCR is £9.8 billion (31 December 2021: £11.5 billion) leaving an excess of Eligible Own Funds over MGSCR of £7.4 billion (31 December 2021: £8.5 billion), which transfers to an MGSCR coverage ratio of 406% (31 December 2021: 387%).

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 6.

APM	Definition	Why this measure is used	Reconciliation to financial statements
Assets under administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS statement of consolidated financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS statement of consolidated financial position to the Group's AUA is provided on page 14.
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 statement of consolidated financial position on pages 31 and 32 and the analysis of borrowings note on page 52.
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 the Group's 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 according to their capital management policies.	This figure provides a view of the level of surplus capital in the Life Companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section on page 12 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 52.
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.
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 7 to 9, 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 62.
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 4.1 in the interim 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 15.
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 10.

Shareholder information

Annual General Meeting
Our Annual General Meeting ('AGM') was held on 5 May 2022 at 10.00am (BST).

The voting results for our 2022 AGM, including proxy votes and votes withheld are available on our website at www.thephoenixgroup.com

Shareholder services
Managing your shareholding
Our registrar, Computershare, maintains the Company's register of members. If 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

Share price
You can access the current share price of Phoenix Group Holdings plc at www.thephoenixgroup.com

Group financial calendar for 2022
2022 interim dividend
Ex-dividend date 25 August 2022
Record date 26 August 2022
Interim 2022 dividend payment date 12 September 2022

Forward-looking statements

The 2022 Interim Report contains, and the Group may make other statements (verbal or otherwise) containing, forward looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates.

As such, actual future gains and losses could differ materially from those that the Group has estimated. Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to:

- domestic and global economic, 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 direct and indirect consequences of the Russia-Ukraine War on European and global macroeconomic conditions;
- the impact of inflation and deflation;
- information technology or data security breaches (including the Group being subject to cyber-attacks)
- 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 2022 Interim Report. No representation is made that any of these statements will come to pass or that any future results will be achieved. As a result, you are cautioned not to place undue reliance on such forward-looking statements contained in this 2022 Interim Report.

The Group undertakes no obligation to update any of the forward-looking statements or data contained within the 2022 Interim Report or any other forward-looking statements or data it may make or publish.

The 2022 Interim Report has been prepared for the members of the Company and no one else. The Company, its Directors or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Nothing in the 2022 Interim Report is or should be construed as a profit forecast or estimate.

Caution about climate and ESG related disclosures

Climate and ESG disclosures 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 timeframes used in these disclosures, make any assessment of materiality inherently uncertain. In addition, the Group's climate risk analysis and net zero transition planning will continue to evolve and the data underlying the Group's analysis and strategy remain subject to change over time. As a result, the Group expects that certain climate and ESG disclosures made in the 2022 Interim Report are likely to be amended, updated, recalculated or restated in the future.

Online resources

Reducing our environmental impact
In line with our Corporate Responsibility programme, and as part of our desire to reduce our environmental impact, you can view key information on our website.

Go online
www.thephoenixgroup.com

Investor relations
Our Investor Relations section includes information such as our most recent news and announcements, results presentations, annual and interim reports, share-price performance, AGM and EGM information, UK Regulatory Returns and contact information.

Go online
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