

PHOENIX LIFE ASSURANCE LIMITED

Company Registration Number: 1419

STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
for the year ended 31 December 2022

PHOENIX LIFE ASSURANCE LIMITED

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Strategic report

The Directors present the Strategic report, their Report and the financial statements of Phoenix Life Assurance Limited ("the Company") for the year ended 31 December 2022.

The financial statements of the Company for the year ended 31 December 2022 have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

Business review**Principal activities**

The principal activities of the Company are the provision of life assurance and pension products in the UK. The Company places customers at the heart of what it does and is committed to delivering a high level of customer service. The Company remains focused on delivering profits to support the cash generation policy of Phoenix Group Holdings plc ("the Group").

The Company's business is largely in run off, with the exception of vesting pension annuity business, and all business is written in the UK.

The Company has historically written a wide range of life and pensions business, predominantly on individual risks. Reinsurance arrangements are in place with companies outside of the Group to cover certain blocks of immediate and deferred annuities, some permanent health, critical illness and term assurance risks that are linked to the performance of funds maintained by the reinsurer. Unit-linked funds on policies written prior to 1 January 2000 and increments written on unit-linked policies from 1 January 2000 are fully reinsured to Phoenix Life Limited ("PLL"), a fellow group company.

The Company operates under the governance and risk management frameworks of the Group. The Company, Phoenix Life Limited, Standard Life Assurance Limited, ReAssure Limited and ReAssure Life Limited (together the "Life Companies") operate joint Boards of Directors, Audit Committees and Risk Committees, which operate under the Group's frameworks whilst having responsibility delegated to them for oversight of policies and activities that only impact the Life Companies.

Strategy

The Company is a member of the Phoenix Group. The Group is the UK's largest long-term savings and retirement business. The main focus has traditionally been on closed life fund consolidation, and the Group specialises in the acquisition and management of closed life insurance and pension funds. Alongside this, the Group has open business which manufactures and underwrites new products and policies to support people saving for their futures. The Group's vision is to grow a strong and sustainable business to help more people on their journey to and through retirement, enabling improved outcomes for customers and to deliver value for shareholders.

Corporate activity**Strategic asset allocation ("SAA")**

The SAA is reviewed annually by the Board Investment Committee and provides expected ranges for the investment portfolio allocation based on a short term (1 year) and a medium term (3 years) investment horizon. These incorporate the view on asset sourcing and sales plans.

The current SAA reflects (i) a higher allocation to private assets, driven by both the higher illiquidity premium available on these assets and in some cases their longer maturity, which offers a better match for the annuity business; and (ii) the ability to increase the allocation to non-GBP assets, which can increase credit portfolio diversification.

Future developments

The bulk of the Company's long-term life assurance business is in gradual run off. The Company will continue to explore future business opportunities, which help to secure future benefits for both policyholders and owners.

Subject to regulatory approval, the Company intends, with an anticipated effective date of 30 September 2023, to complete a Part VII of its business into PLL in order to realise further cost and capital synergies.

Climate change activity in the year and future developments

Climate change is one of the greatest global challenges faced today. The Group's ambition is to be a net zero business by 2050 and believe the Company has a significant role to play in helping to address the climate emergency and accelerating the transition to a net zero economy. This is intrinsically linked to the Group's purpose of helping people secure a life of possibilities.

The Group have set an overarching target of being net zero carbon in our investment portfolio by 2050, in accordance with science-based targets. The Group have also set interim carbon intensity reduction targets which provide a clear pathway to their overall net zero commitment: a 25% reduction in the carbon emission intensity of investments by 2025; and a 50% reduction in the carbon emission intensity of investments by 2030. These interim targets will cover listed equity and credit assets where the Company can exercise control and influence.

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The Group offers savings and insurance products that enable policyholders to exercise their investment choice to help accelerate the transition to a low carbon economy.

On 9 February 2022, the Bank of England launched the second round of the Climate Biennial Exploratory Scenario (“CBES”) exercise, which is designed to assess the financial risks arising from climate change. Round 2 of the CBES was completed during 2022, on a consolidated basis including the Company, exploring the strategic responses to the three scenarios and the associated implications for business models.

The Group is engaging to multiply impact by working collaboratively with partners to deliver cross-sector change and thought leadership. The Group joined the Net Zero Asset Owners Alliance in May 2021, the Partnership for Carbon Accounting Financials UK in June 2021 and signed up to the Taskforce on Nature-related Financial Disclosures in November 2021.

More information can be found in the principal risks section of this report, and in the Group’s Annual Report and Accounts and standalone Sustainability Report in line with the Task Force on Climate-related Financial Disclosures recommendations.

Regulatory developments

The Company continues its preparations for the introduction of the new insurance accounting standard, IFRS 17, which will significantly change the way the Company measures its insurance contracts and investment contracts with discretionary participation features (“DPF”), impacting profit emergence patterns and adding complexity to valuation processes, data requirements and assumption setting. Further detail on this is set out in note 3.

The UK government has launched a consultation into the Future Regulatory Framework for financial services, and separately into the Solvency II regime. These reviews could lead to significant changes to the Company’s regulatory environment, and could create both challenges and opportunities for its business. The Company continues to monitor changes in the regulatory environment and feedback on consultations both via the Group and industry bodies.

Key Performance Indicators (“KPIs”)

The results of the Company for the year are shown in the Statement of comprehensive income on page 33.

The Company’s performance is measured and monitored by the Board with particular regard paid to the following KPIs:

Capital resources

The Company’s solvency position is an important measure of financial strength. As at 31 December 2022, the Company’s estimated Solvency II Own funds and excess of own funds over solvency capital requirement (unaudited) were £1,205m (2021: £1,679m) and £539m (2021: £603m) respectively.

Adjusted Operating profit

Adjusted operating profit is one of the key performance indicators used by the Company’s Directors and executive management to explain the financial performance of the Company. 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 movements in liabilities. Adjusted operating profit excludes impacts arising from short-term economic volatility and other one-off items which, due to their size or nature, are not indicative of long-term operating performance.

This non-GAAP measure provides a good indicator of the Company’s performance 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 provides stakeholders with a comparable measure of the underlying performance of the Company by identifying and analysing non-operating items.

Adjusted operating profit increased by £64m to £89m (2021: £25m). Adjusted operating profit includes expected returns, which includes the owners’ share of with-profits bonus, of £51m (2021: £51m), changes in demographic assumptions of £24m (2021: £(17)m), demographic experience of £2m (2021: £(6)m), model and methodology changes of £9m (2021: £(8)m) and new business profits of £3m (2021: £5m).

A reconciliation from adjusted operating profit to profit attributable to owners can be found in note 4.

Dividends paid

The payment of dividends to Group is a strategic objective as cash generation is a key metric across the Group. Cash remitted reflects the generation of free surplus within the life companies and the benefit of management actions implemented in the period. Dividends of £150m were paid to the parent company during the year (2021: Nil). The directors do not recommend the payment of a final dividend.

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Customer satisfaction score

The 2022 customer satisfaction percentage for the Phoenix Life division (comprising the Company and its fellow subsidiary PLL), was 96% (2021: 95%). This measure highlights how satisfied customers are with Phoenix's telephony servicing proposition. The Company aims to maintain a customer satisfaction score which is consistently above 90%.

Financial ombudsman service ("FOS") overturn rate

This is an independent view of how the Company is handling complaints. The 2022 result for the Phoenix Life division (comprising the Company and its fellow subsidiary PLL), was 17% (2021: 16%), which is better than the industry average of 37% and the "Decumulation, Life and Pensions" category average of 26%.

Speed of pension transfer payouts

This is a recognised industry measure. The transfer performance has contributed to Phoenix earning an accreditation with STAR, the industry initiative to improve pension transfers for customers.

Operations

During the year, the Company has maintained four with-profits ("WP") funds of which the Pearl WP fund operates on a 90:10 basis and the SERP, LL WP and NPL WP funds operate on a 100:0 basis. The Company also maintains a portfolio of non-profit business ("NPFs") for which the profits accrue to the shareholder. In terms of policyholder liabilities, the Pearl WP fund is the largest with gross policyholder liabilities of £4,388m (2021: £5,659m) at the period end.

There are agreements in place for the Company to provide financial support to its WP funds, if necessary. At 31 December 2022, the value of support provided to the SERP fund is £313m (2021: £566m), the LL WP fund is £95m (2021: £130m) and the NPL WP fund is £287m (2021: £457m).

Policy administration is outsourced to Pearl Group Services Limited ("PGS"), one of the service companies within the Group, which, in turn, has sub-contracted some administration to TCS Diligenta. Under the Company's agreements with PGS, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk.

Asset management is outsourced to a diversified range of providers, of which the most significant are Ignis Investment Services Limited and Aberdeen Asset Management plc, both members of the abrdn group, and Henderson Global Investors Limited (part of Janus Henderson Investors).

Investment administration and custody services are primarily outsourced to HSBC Security Services.

The performance of the Company's invested assets is reviewed against fund specific, pre-defined benchmarks by the Board, the Investment Committee and the Investment Management Committee, which is an internal management committee.

Directors' duties under section 172 of the Companies Act

Section 172 of the Companies Act 2006 requires each director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, each director must have regard, amongst other matters, to the:

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

During the year, the directors of the Company have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the company (or those that impact the wider Group), the directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

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The Board recognises that a company's stakeholders are integral to its success. During the year, the Company's directors ensured that its considerations and decision-making processes took into account their impact on its own stakeholders, namely:

- its customers;
- its strategic partners and outsourced service providers;
- the Group's employees engaged to undertake work on behalf of the Company;
- its regulators, the Prudential Regulatory Authority and the Financial Conduct Authority; and
- the Company's immediate parent, Pearl Group Holdings (No.2) Limited, and ultimate parent, Phoenix Group Holdings plc.

During 2022, and as a result of the impact of the wider political and economic environment, the Board had deep dive sessions, in particular, on:

- the impact of the war in Ukraine to, to include the level of exposure to investments, impacts on customers and the increase in potential cyber attacks;
- the impact of the "Great Resignation" on the Group's employees and the potential for associated attrition and skills shortages;
- the impact of the "Cost of Living" and how the Group was reacting to the needs of both customers and the Group's employees who may be suffering from financial hardship;
- the market instability faced during the second half of the year.

Significant decisions that show how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the directors of the Company have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2022.

KEY BOARD DECISION	2022 Sustainability Strategy
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Investing in a sustainable future Enhancing our operating model and culture	<p>The Board's review of proposals relating to the Group Sustainability Strategy, focused on the following elements:</p> <ul style="list-style-type: none"> • Fostering business relationships with suppliers, customers and others: The Board explored the proposed response to current consumer attitudes and long term changing consumer needs, including the launch of a financial inclusion strategy, embedding Environmental, Social and Governance ("ESG") standards within funds and growing the existing digital literacy programme. It also considered the key initiatives designed to support the business in working responsibly with its suppliers. These included plans for Net Zero modelling supplier emissions, undertaking an independent ESG risk assessment of the Group's supply chain and implementing outputs of a prompt payment project. An education session on the intended plans for the Net Zero Transition Plan due to be formalised in 2023 was provided to the Board in December 2022. • The interests of the company's employees: Initiatives relating to investing in people and culture were also considered by the Board. These included plans to position diversity and inclusion constructs and processes as cultural enablers, targeting, measuring and rewarding performance and measuring colleague engagement through surveys designed to drive action and measurable improvements. • The impact of the company's operations on the community and the environment: The Board reviewed initiatives and targets designed to reduce environmental impact. These included development of an internal carbon price to be used to inform a capital expenditure improvement plan, development of a biodiversity action plan and consideration of offsetting opportunities. It also considered ways in which the business proposed to support communities, which included further embedding charity partnerships, promoting the value of skills-based volunteering and maximising circular economy opportunities like equipment donation and lending facilities.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the Sustainability Strategy at local level, providing a non-objection for the overall strategy. Final approval for the overall strategy was then sought and received from the Company's ultimate parent, Phoenix Group Holdings plc.

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KEY BOARD DECISION	Conduct Risk Framework
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Enhancing our operating model and culture	<p>The Board received a report setting out proposed changes to the Company's Conduct Risk Framework. Key matters considered by the Board in relation to the revised Framework included:</p> <ul style="list-style-type: none"> • Maintaining a reputation for high standards of business conduct: The Board noted that proposed changes to the Framework were designed to ensure it evolved in line with the increased scale and complexity of the Company and wider Group. • Fostering business relationships with suppliers, customers and others: The Board also recognised that the framework would support the business in identifying areas where its acts or omissions impacted outcomes delivered to customers, or had the potential to do so if not corrected. In addition, the proposed changes were intended to provide alignment to the expectations of the Company's regulator, the Financial Conduct Authority. • The interests of the company's employees: The Board noted that the standards set out in the Framework were aligned to a "Culture and Behaviours" pillar, which included colleague considerations such as Diversity and Inclusion. • The impact of the company's operations on the community and the environment: A further pillar to which standards were aligned to was that of "Force for Good", which considered the impact of the Company in Society in relation to markets, communities and the Group-wide sustainability strategy.
OUTCOME	Following due consideration of the matters set out in section 172, the Board resolved to approve the updated Conduct Risk Framework.

KEY BOARD DECISION	YE21 Annual Accounts
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Optimising our in-force business	<ul style="list-style-type: none"> • Likely consequences of any decisions in the long term: As part of the year end accounts approval process, the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE21 accounts, within which a going concern statement was included (relied upon by others assessing the business). The long-term impact of the decision to approve the YE21 accounts therefore included the potential reliance of those reading the accounts on the going concern statement, which the Board considered to be relevant and accurate. • Maintaining a reputation for high standards of business conduct: Prior to approving the YE21 accounts, the board considered the opinions of the Finance Director with supporting paperwork presented by the Financial Reporting team, together with the outcome of an external audit for the accounts, including assessments relating to the impact of geopolitical risk in light of escalating Ukraine tensions and remaining uncertainty in respect of COVID-19.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the YE21 accounts.

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KEY BOARD DECISION	H1 2022 Dividend Proposal
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Optimising our in-force business	<p>At the 2022 mid-year point, the Board received papers setting out in detail the Company's actual and projected solvency and liquidity position, to enable it to assess the resources available for a distribution to the Company's sole shareholder, Pearl Group Holdings (No.2) Limited.</p> <ul style="list-style-type: none"> • Likely consequences of any decisions in the long term: When considering the proposal to approve a dividend, the Board paid due regard to the long term impact of that decision – specifically in relation to Company's ability to meet its regulatory capital requirement. In particular, the Board considered the impact of market stresses and extreme inflation on the Company's ability to remain robustly capitalised following the payment of any dividend. The Board also received comprehensive Line 2 assurance from the Risk function as to the appropriateness of the proposed dividend. • Fostering business relationships with suppliers, customers and others: The Board recognised the importance of being able to provide assurance to the regulator, the Prudential Regulatory Authority, as to its sound and prudent management. The Board considered the H1 2022 dividend proposal in the context of satisfying its regulatory capital obligations in this respect. It also noted the impact of the proposed dividend payment on the Company's customers, recognising that the solvency position post-payment meant that policyholder obligations continued to be met. • Maintaining a reputation for high standards of business conduct: In addition to maintaining its minimum regulatory capital requirement, the Company applies an additional capital buffer as an extra layer of prudence. The Board considered the H1 2022 dividend proposal in the context of maintaining its additional management buffer. In doing so, it recognised the importance of the Company's ongoing capital strength.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the H1 dividend of £150m, to be paid to its sole shareholder, Pearl Group Holdings (No.2) Limited.
KEY BOARD DECISION	Closed Book Business Acquisition
STRATEGIC IMPORTANCE	CONSIDERATION OF S172 MATTERS
Growing our business to support both new and existing customers	<p>The Board received a proposal in relation to the acquisition of a closed book business.</p> <ul style="list-style-type: none"> • Fostering business relationships with suppliers, customers and others: The proposal incorporated a detailed analysis of potential customer impacts in respect of the acquisition. The Board noted that whilst there were no red flags, work would be required to align some product outcomes to Phoenix's appetite. This work was expected to be achieved without placing customer outcomes for existing Phoenix customers at risk. • Maintaining a reputation for high standards of business conduct: The outputs of an Acquisition Impact Assessment of operational capacity to deliver the target operating model post-acquisition were considered by the Board. The Board noted that integration execution would be gradual and measured, beginning only when capacity became available. The only exception to this approach would be where the target was outside of Group risk appetite. • Likely consequences of any decisions in the long term: The Board discussed how any potential impact on the Company's capital position arising from the target's products offering guaranteed rates would need to be managed, noting that to do so, it needed to be comfortable that reserves were appropriate, the capital position was robust and that customers were being treated fairly.
OUTCOME	Following due consideration of the matters set out in section 172, the Board concluded that it was able to provide the Group Board with a non-objection for the transaction to proceed.

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KEY BOARD DECISION	Customer and Vulnerable Customer Strategies
<p>STRATEGIC IMPORTANCE</p> <p>Enhancing our operating model and culture</p>	<p>CONSIDERATION OF S172 MATTERS</p> <p>The Board considered proposals relating to the ongoing strategy and management for customers, to include vulnerable customers.</p> <ul style="list-style-type: none"> <p>Fostering business relationships with suppliers, customers and others: The Board considered the continued development of a Group wide customer strategy to include ambition, capabilities and investment which cuts across all areas of the Group and which aligned to the overall ambition of providing products and services to customers across the Group, to and through retirement.</p> <p>The Board noted that the proposals to provide a visible and holistic response to its vulnerable customers was integral to the delivering Phoenix's vision to grow a strong and sustainable business, helping more people on their journey towards and through retirement. It also recognised that vulnerability was not only driven by socio-economic factors, but was also exacerbated by the cost of living crisis and complexities around Life and Pensions business decision making and the guidance and advice gap. The Board noted that all customers had the potential to become vulnerable at some point in their lives. In considering the proposals, the Board challenged how consistency of approach across all books of business could be achieved and demonstrated. It also sought to understand how vulnerability was captured at the earliest stages of customer interaction.</p> <ul style="list-style-type: none"> <p>Maintaining a reputation for high standards of business conduct: The Board discussed the need for the customer strategy to align to the principles being set out in the Financial Conduct Authority's ("FCA") Consumer Duty plans.</p> <p>The Board noted how the proposed vulnerable customer strategy was designed to go beyond simply meeting FCA requirements or solving a current problem for customers. Rather the ambition was for Phoenix to become market leading in how it supports and proactively responds to customer vulnerability.</p>
<p>OUTCOME</p>	<p>Following due consideration of the matters set out in section 172, the Board approved:</p> <ul style="list-style-type: none"> the strawman Group wide customer strategy and approach; the proposed strategy by which vulnerable Phoenix customers could be identified and supported.

In order to support the Board's consideration of the matters set out in section 172 (1) (a)-(f) each proposal submitted to the Board must include detail about directors' duties including those set out above.

Business relationships with customers

Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Board papers require authors to consider and provide detail relating to the potential impact of proposals on customers, ensuring that the Board is able to pay due regard to such matters.

Business relationships with Partners/Suppliers

The Service Companies within the Group are the principal leads on maintaining relationships with suppliers with respect to their contractual obligations. In accordance with the Prudential Regulatory Authority ("PRA's") Supervisory Statement 'SS2.21', the Company's Board, as part of the collective Life Companies' Board, has oversight of the relationship with outsourced service providers ("OSPs") with respect to their delivery of services to customers. The Life Companies' Board's schedule of matters reserved includes the responsibility for monitoring the performance of management service provider contracts (including services contracted with OSPs).

Energy and carbon reporting

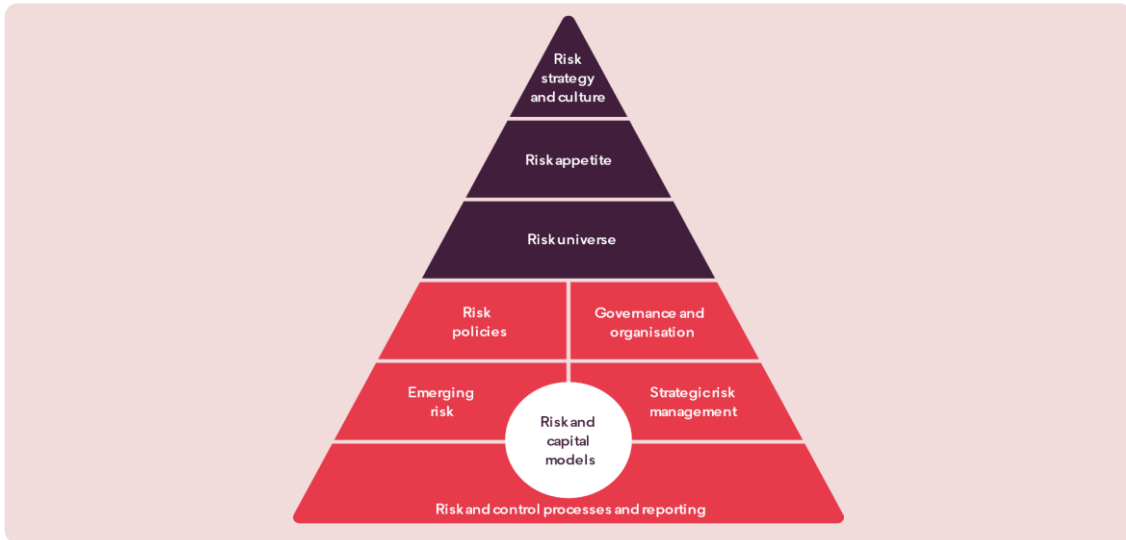
Energy and Carbon usage information is disclosed in the Group's annual report and accounts and accordingly the Company has not reported on this in these individual financial statements.

Risk Management Framework

The Company adopts the Phoenix Group's Risk Management Framework ("RMF"). The Group's RMF embeds proactive and effective risk management. It seeks to ensure that all material risks are identified, assessed, controlled, monitored and managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The Group's RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards.

The nine components of the Group's RMF are illustrated in the diagram below. Further details on each component are outlined in the Strategic Report of the Group's Annual Report and Accounts 2022.

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Risk Environment

The overall risk environment remains uncertain and is dominated by ongoing inflationary pressures, with implications for economic stability and the welfare of the Company's customers and colleagues.

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

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

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

The Group is working to implement the requirements of IFRS 17. Whilst plans are in place to deliver the required disclosures in the interim accounts, there remain significant delivery risks given the complexity of the business. The Group recognises that should it not deliver IFRS 17 reporting for the HY23 interim accounts, certain reputational, regulatory and other market consequences would arise that could be material. Management has considered the risks to executing the plans and identified actions that could be taken should these risks materialise.

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

The Company continues to place significant focus on the operation of its key strategic partnerships, including operational resilience, in order to protect the efficient operation of the business and delivery of service to its customers.

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integrated with the principal risks of the Group which are outlined in the Strategic report of the Group's Annual Report and Accounts 2022. Twelve of the thirteen Group principal risks are relevant to the Company and are outlined in the sections that follow.

During 2022, for the purposes of managing risks of the Company, including those impacting the Company's financial assets and financial liabilities, the Company considered the following Risk Universe categories: Financial Soundness; Market; Insurance; Credit; Customer; Operational; and Strategic. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in more detail in note 34 of the financial statements.

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The principal exposures for the Company mostly relate to the NPFs, SERP, LL WP and NPL WP funds and reflect the wide range of products in the funds. The Company is particularly exposed to insurance risk and a number of financial risks arising from its underlying assets and liabilities, including movements in financial markets and property markets, changes in interest rates, widening of credit spreads and the risk of corporate defaults.

The Pearl WP fund remains relatively strong financially and the risks of meeting policyholder guarantees are unlikely to have a material adverse impact on the owners. The SERP, LL WP and NPL WP funds remain relatively weak and, as a result, the shareholders are exposed to insurance risk and to market and credit risk associated with its investments because the margin between the value of assets and the realistic value of policyholder liabilities is small. Risks are managed through investment strategies matching liabilities with fixed and variable rate income securities to mitigate risks associated with guarantees and with the purchase of derivatives to mitigate risks of guaranteed annuity options.

The Company closely manages the risk of failure to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements mandated by the Solvency II Directive and the Prudential Regulatory Authority. The Capital Management Framework is detailed in note 33.

Market risk

1. Adverse market movements can impact the Group, and the Company's, ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment

Impact	Mitigation	Events in the year
<p>The Company and its customers are exposed to the implications of adverse market movements. This can impact the Company's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers.</p> <p>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.</p> <p>See also comment in section above regarding strength of SERP, LL WP and NLP WP funds in relation to Market.</p>	<p>The Company undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing.</p> <p>The Company continues to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates, inflation, and foreign currencies.</p> <p>The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows.</p>	<p>There remains significant uncertainty around the economic recovery from COVID-19, geopolitical tensions and interest rates.</p> <p>The global macro-economic environment remains highly uncertain, as it has throughout 2022. The Ukraine conflict and rapid increase in inflation have increased market volatility throughout 2022, with recession expected throughout Europe and possibly the wider world. The longer-term impacts of the conflict have affected the cost and availability of food and vital commodities such as oil and gas, driving inflationary pressures.</p> <p>Inflation is considered a material short to medium-term risk. Pressures continue and the UK Consumer Price Index hit 11.1% in October 2022, before retreating slightly to 10.7% in November and ending the year at 10.5% in December. Bank of England base rate has increased from 0.1% at December 2021 to 3.5% at 31 December 2022 and a further increase to 4% voted by the Monetary Policy Committee in February 2023, with expectations of a peak at 4.6% in 2023. Higher interest rates, coupled with cost of living rises, are likely to suppress property prices over the coming year.</p>

The UK mini-budget added further pressure to yield rises, squeezing liquidity throughout the long-term savings sector. The tax increases and government spending cuts announced in the Chancellor's Autumn statement helped to stabilise markets but have the potential to worsen customer sentiment, which may deepen the expected recession in the UK and affect the ability of households to save.

Insurance risk

2. The Group, including the Company, may be exposed to adverse demographic experience which is out of line with expectations

Impact

The Company 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 Company 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 Company's ability to meet its cash flow targets. See also comment in section above regarding strength of SERP, LL WP and NLP WP funds in relation to Insurance Risk.

Mitigation

The Company undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions.

The Company regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Company continues to manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Company actively monitors persistency risk metrics and exposures against appetite.

Where required, the Company continues to take capital management actions to mitigate adverse demographic experience.

Events in the year

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 been given little weight given its anomalous nature. The long-term impact of COVID-19 on longevity, mortality and persistency experience still remains unclear.

The Company is actively monitoring customer behaviour as a result of the cost of living crisis; this includes the impacts that any change in behaviour could have on demographic assumptions. As noted elsewhere in this section, work is underway to ensure support is provided to customers as the impacts from the cost of living crisis continue to materialise.

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Credit Risk**3. The Group, including the Company, is exposed to the risk of downgrade and/or failure of a significant counterparty**

Impact	Mitigation	Events in the year
<p>The Company is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, derivatives or banking counterparties. This could cause immediate financial loss or a reduction in future profits.</p> <p>The Company 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 Company's operations which may in turn have adverse effects on customer relationships and may lead to financial loss. See also comment in section above regarding strength of SERP, LL WP and NLP WP funds in relation to Credit Risk.</p>	<p>The Company regularly monitors its counterparty exposures and has specific limits relating to individual counterparties (with sub-limits for each credit risk exposure), sector concentration and geography.</p> <p>The Company undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised.</p> <p>The Company regularly discusses market outlook with its asset managers in addition to the oversight provided by Group Risk.</p> <p>For mitigation of risks associated with stock-lending, additional protection is provided through collateral and indemnity insurance.</p>	<p>Over 2022 the Company has continued to undertake actions to increase the overall credit quality of its portfolio and mitigate the impact on risk capital of future downgrades. Furthermore, the Group and the Company has enhanced its counterparty concentration limits framework to better manage counterparty failure risk. This positive progress and the easing of the economic and social impacts of COVID-19, are balanced by risks arising from the Ukraine conflict and UK Government policy. Uncertainties over the global economic outlook and high inflation present an increased risk of downgrades and defaults. In addition, a UK sovereign downgrade which is now more probable would have a negative impact on UK related assets including Gilts, Housing Associations and Local Authority Loans.</p> <p>The Company has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities.</p> <p>The Company and the Group has been monitoring Credit Suisse closely since Q4 2022 following initial negative headlines. The Company's exposure to Credit Suisse is immaterial with no counterparty derivative exposures and a small direct shareholder exposure and policyholder exposure which are both immaterial. In terms of broader market implications of Credit Suisse's failure and subsequent UBS takeover, market volatility is expected to stay more elevated than usual and the Company will continue to monitor the market closely and any sector-wide or regulatory response that might be required.</p>

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Customer Risk**4. The Group, including the Company, fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers**

Impact	Mitigation	Events in the year
<p>The Company is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage for the Company and/or financial losses.</p> <p>In addition a failure to deliver propositions that meet the evolving needs of customers may result in the Company's failure to deliver its purpose of helping people secure a life of possibilities.</p>	<p>The Group's Conduct Risk Appetite, applicable to the Company, sets the boundaries within which the Group expects customer outcomes to be managed.</p> <p>The Group Conduct Risk Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where the Group and the Company's customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions.</p> <p>The Group, including the Company, has a suite of customer policies which set out key customer risks and controls in place to mitigate them.</p> <p>The Company maintains a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes.</p>	<p>The Group, including the Company, is preparing for the introduction of the FCA's Consumer Duty requirements which set higher and clearer standards of consumer protection across financial services and require firms to prioritise their customers' needs. The Consumer Duty initial implementation plan has been agreed by the Company Board.</p> <p>The Company is monitoring the impacts of the cost of living crisis on its customers, using customer behaviour research and analysis, to ensure that it provides them with the support and help that they need during this period of economic uncertainty. The Company continues to provide support to customers both when paying out on their protection plans and when making decisions about their life savings. Proactive action to support customers, including those most vulnerable, is a priority to the Company.</p>

Operational Risk - Regulatory, legislative or political**5. The Group, including the Company, is impacted by significant changes in the regulatory, legislative or political environment**

Impact	Mitigation	Events in the year
<p>Changes in regulation could lead to non-compliance with new requirements that could impact the quality of its customer outcomes, lead to regulatory sanction, impact financial performance or cause reputational damage.. These could require changes to working practices and have an adverse impact on resources and financial performance.</p> <p>Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.</p>	<p>The Company undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Company to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.</p>	<p>The volatile political environment following the UK Government's 'mini-budget' has stabilised with the election of Rishi Sunak as Prime Minister, but concerns remains due to the economic headwinds facing the new administration and the implications for the Company's customer base, including the cost of living, energy crisis and the potential increase in vulnerability.</p>

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Impact**Mitigation****Events in the year**

In November 2022, HM Treasury issued a consultation response that confirmed the UK Government's intended Solvency II reforms. The Group supports the PRA and HM Treasury's objectives to reform the regulations to better suit the UK market whilst maintaining the right safeguards for policyholders. These regulations are an important component of the changes needed to the wider UK investment landscape which will enable the Group to meet its ambition to invest more in the future. However, uncertainty remains over when the reforms will be implemented and the quantitative impacts will depend on the exact detail of the final legislation. The Group will therefore remain actively involved in industry lobbying on Solvency II.

The FCA's proposed new Consumer Duty's objectives are to deliver a higher and more consistent level of consumer protection and for the industry to do more to foresee and prevent harm before it happens. In July 2022 the FCA published final rules and guidance, the impact of which the Group has assessed. As part of the Company's implementation plan, key priorities have been identified that must be addressed to ensure compliance with the Consumer Duty requirements within the relevant timescales. This plan has been approved by the Board and shared with the FCA.

IFRS 17 aims to standardise insurance accounting across the industry. Compliance with IFRS 17 is a significant undertaking and a complex programme of work to deliver the Group's 2023 interim report is ongoing and reliant on the successful completion of significant workstreams across the Group. The Group expects to continue its finance transformation programme beyond delivery of the 2023 interim report to further streamline and automate IFRS 17 processes to support efficient financial reporting in future.

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Operational Risk – Diverse and engaged workforce**6. The Group, including the Company, fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy**

Impact	Mitigation	Events in the year
<p>Delivery of the Company's strategy is dependent on a talented, diverse and engaged workforce.</p> <p>This risk is inherent in the Company's business model given the nature of acquisition activity and specialist skillsets.</p> <p>Potential areas of uncertainty include: the ongoing transition of ReAssure businesses into the Group and the introduction of the flexible working model.</p> <p>Periods of prolonged uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract and retain individuals with the appropriate skills to help deliver our strategy.</p> <p>This could ultimately impact the Company's operational capability, its customer relationship and financial performance.</p>	<p>The Group aims to attract and retain colleagues, building a sense of belonging by providing timely communications to colleagues aim to provide clarity around corporate activities. Communications including details of key milestones to deliver against our plans.</p> <p>The Company regularly benchmarks terms and conditions against the market and maintains dynamic succession plans for key individuals, ensuring successors bring appropriate diversity of thought, capability and experience. Every six months, the Group's CEO and HR Director meet with the Executive Committee to discuss talent, succession and diversity.</p> <p>Monthly colleague surveys help to improve engagement whilst promoting continuous listening and rapid identification of concerns and actions.</p> <p>The Company continues to actively manage operational capacity required to deliver the Company's strategy with ongoing focus on senior bandwidth, attrition and sickness.</p> <p>Flexible working offers colleagues greater flexibility in their working practices.</p> <p>The Company looks to proactively respond to external social, economic and marketplace events that impact colleagues.</p>	<p>Strong engagement scores in colleague surveys have continued in 2022, although there remains uncertainty regarding the longer term impacts of the pandemic and cost of living crisis on colleague attrition, sickness, motivation and engagement. Skills essential to the Group continue to be in high-demand in the wider marketplace and recruitment and retention still has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Group monitors this closely but continues to remain confident in the attractiveness of its colleague proposition.</p> <p>The Group, and the Company, are exploring ways to enhance the use of apprenticeships including Kick Start apprenticeships to broaden workforce diversity, fill key skills, creating bespoke graduate and early careers programmes for specialist technical areas.</p> <p>The Group, and the Company, continue to successfully operate a flexible working model, with strategic investments in technology and other resources maximising its effectiveness. The model focuses on empowerment by enabling leaders and colleagues to agree together the right working arrangements which meet individual, team and business needs.</p> <p>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.</p>

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Operational Risk – Operational Resilience**7. The Group, including the Company, or its outsourcers are not sufficiently operationally resilient****Impact**

The Company 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 within the Company, the Group or those of our primary and downstream outsourcers and include a range of environmental and climatic factors.

The Group regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. In doing so, it faces the risk of interruption to its customer services, which may result in the failure to deliver expected customer outcomes.

Regulatory requirements for operational resilience, and a timetable to achieve full compliance, were published in March 2021. Whilst the specific requirement to work within set impact tolerances takes effect in March 2025, the Group and the Company is exposed to regulatory censure now in the event of operational disruption should the Regulator determines that the cause was a breach of existing regulation.

Mitigation

The Group's Operational Resilience Framework, which applies to the company, enhances the protection of customers and stakeholders, preventing intolerable harm and supports compliance with the regulations. The Company works closely with its outsourcers to ensure that the level of resilience delivered is aligned to the Company's impact tolerances.

The Company and its outsourcers have well established business continuity management and disaster recovery frameworks that are subject to an annual refresh and regular testing. For example, extensive testing of the power capabilities of the Group and its critical suppliers has shown they are resilient to power cuts from the National Grid.

The Company 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 Company and its outsourcer's have a flexible working model in place. This significantly reduces exposure to intolerable disruption for its customers.

Events in the year

The Group has a significant change and customer migration agenda, effective completion of which is required to deliver planned strengthening of its operational resilience both internally and with some outsourced service providers.

The Group (including the Company) has a programme of work to strengthen operational resilience ahead of the next key regulatory deadline of March 2025. Where this is dependent upon customer migration to an alternative administration platform, the risk of late delivery is actively managed by both the relevant change programme and separate operational resilience remediation governance and reporting.

As noted in the Company's 2021 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.

Operational Risk – Cyber Resilience**8. The Group, including the Company, or its Supply Chain are not sufficiently Cyber resilient****Impact**

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 or the Company's reputation and brand.

Mitigation

The Company 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 Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and external threat intelligence sources.

Events in the year

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 Company relies upon. The Group (including the Company) has improved its Threat Intelligence capabilities in 2022 and monitors National Cyber Security Centre guidance and other threat intelligence sources on a daily basis. To date, the Company has not seen a material increase in cyber-attacks since the conflict started.

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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 the Group and the Company to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise.

Increased use of online functionality to meet customer preferences and flexible ways of working, including remote access to business systems adds additional challenges to cyber resilience and could impact service provision and customer security.

The Company continues to consolidate its cyber security tools and capabilities. The specialist Information Security & Cyber Risk team in Group Risk provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.

The Company continues to enhance and strengthen its outsourced service provider and third party oversight and assurance process. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.

The Group's cyber controls are designed and maintained to repel the full range of the cyber-attack scenarios; although the Group's main threat is considered to be Cyber Crime, from Individuals or Organised Crime Groups, the same controls are utilised to defend against a Nation-State level cyber-attack. Having strengthened and consolidated its cyber controls, including in areas such as Vulnerability and Patch Management, Detect and Respond and infrastructure scanning capabilities in the first half of 2022, the main improvement in the second half has been on strengthening the Supply Chain Security Oversight and Assurance framework. New Cyber Bandings, Processes and Controls have been implemented and will continue to be embedded and matured in 2023.

Strategic risk - Strategic Partnerships

9. The Group, and Company's, Strategic Partnerships fail to deliver the expected benefits

Impact

The Company's strategic partnerships are a core enabler for delivery of the Company's strategy; they allow the Company to meet the needs of our customers and clients and deliver value for shareholders. The Group's end state operating model will leverage the strengths of strategic partners whilst retaining in-house key skills which differentiate us from the market.

However, there is a risk that the Group and the Company's strategic partnerships do not deliver the expected benefits, leading to adverse impacts on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand. Some of the key strategic partnerships include:

abrdn plc: Provides investment management services to the Group and the Company including the development of investment solutions for customers.

TCS Diligenta: Provides Business Process Outsourcing services for the Company's closed book life and pensions business.

HSBC: Provides fund accounting services to the Company.

Mitigation

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 Company's engagement with TCS Diligenta, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of the enlarged partnership.

The Group has in place established processes to oversee services provided by HSBC in line with its supplier management model.

The Group takes steps to monitor its supplier concentration risks and has rehearsed contingent management actions to deploy should there be a significant failure of a strategic partner.

Events in the year

The Group continues to develop its partnership with TCS Diligenta to support its strategic deliverables and the simplified and extended partnership with abrdn plc continues to advance towards the Target Operating Model.

Activity involving Strategic Partnerships continues to be assessed in line with the Supplier Management Model. The Group takes steps to monitor its supplier concentration risks across the Life Companies and has rehearsed contingent management actions to deploy should there be a significant failure of a strategic partner.

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Strategic Risk – Acquisitions & Transitions**10. The Group fails to make further value adding acquisitions or effectively transition acquired businesses. [Note: The Company may be impacted in the event of an acquisition due to its involvement in the transition of acquired businesses.]****Impact**

The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that, without sufficient controls, could result in the Group, and the Company, failing to deliver the expected outcomes for customers or value for shareholders.

Mitigation

Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. The Group's priority at all times is on delivering for its customers.

Customer migrations are planned thoroughly with robust execution controls in place. Lessons learned from previous migrations are applied to future activity to continuously strengthen our processes.

Events in the year

In August 2022 the Group announced the acquisition of Sun Life of Canada UK, a closed book UK life insurance company, from Sun Life Assurance Company of Canada. The acquisition is subject to regulatory approvals and is expected to complete in Q1 2023.

Sun Life of Canada UK operates a predominantly outsourced business model with the majority of its policy administration already undertaken by the Group's strategic outsourcing partner (TCS Diligenta), which supports a simplified operational integration programme.

Strategic Risk – Climate Change/ESG**11. The Group, including the Company, fails to appropriately prepare for and manage the effects arising from Climate Change and wider ESG risks****Impact**

The Company is exposed to the risk of failing to respond to Environmental, Social and Governance 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. The Company is exposed to market risk and credit risk related to climate change as a result of the potential implications of a transition to a low carbon economy. A failure to manage these risks could result in a loss in the value of policyholder and shareholder assets.

In addition, there are long-term market, credit, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions).

Mitigation

Sustainability risk and Climate risk are both embedded into the Group's RMF. Its approach to climate risk management is in line with the requirements of the PRA's Supervisory Statement 3/19 (SS3/19).

The Group publishes an annual Sustainability Report and an annual Climate Report, the latter of which is prepared in line with the Task Force on Climate-related Financial Disclosures ("TCFD") guidance.

A Sustainability Risk Policy is in place and updated annually. Consideration of material climate-related risks has been embedded into the Group risk policies (which the Company adopts), with regular reporting undertaken to ensure ongoing visibility of its exposure to these risks.

The Group continues to evolve its sustainability strategy response to the changing needs of stakeholders and sets targets to monitor progress towards its sustainability commitments. Further details on the sustainability strategy are available in the Group's Sustainability Report.

Events in the year

The Group is committed to a 50% reduction in the carbon economic emissions intensity of all assets within its investment portfolio over which it has control and influence by 2030. The Group is also committed to a 25% reduction in the carbon economic emissions intensity of all listed equity and credit investments over which it has control and influence by 2025. The Group has been working with its key partners and suppliers to encourage them to adopt Science Based Targets initiative carbon reduction targets.

A Net-Zero Transition Plan, which reflects potential future management actions and forward-looking investee company emission objectives, is in development.

The Group is in the process of piloting the Task Force on Nature-related Financial Disclosures guidance ahead of the launch of the framework in 2023.

Round 2 of the Climate Biennial Exploratory Scenario exercise, launched by Bank of England, was completed during the year on a consolidated Group basis, including the Company. This explored the strategic responses to the three scenarios and the associated implications for business models.

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The Group continues to actively engage with regulators, suppliers and asset managers on progress with all climate change and sustainability-related deliverables.

The TCFD disclosures in the Group's Climate Report provide an overview of how it is compliant with SS3/19 and its planned future priorities across each of the TCFD focus areas.

Strategic Risk – Capacity & Capability to Deliver Change

12. The Group, including the Company, does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute its strategic objectives

Impact

The Company'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 Company and its strategic partners.

This could result in the benefits of change not being realised by the Company in the timeframe assumed in its business plans and may result in the Group being unable to deliver its strategic objectives. Poor change delivery could affect the Company's ability to operate its core processes in a controlled and timely manner.

Mitigation

The Group's Change Management Framework defines a clear set of prioritisation criteria and scheduling principles for new projects. This is to support the safe and controlled mobilisation of new change in line with capacity and risk appetite and to strengthen business readiness processes to deliver change safely into the operational environment.

Information setting out the current and forecast levels of resource supply and demand continues to be provided to accountable senior management to enable informed decision-making to take place. This aims to ensure that all material risks to project delivery are appropriately identified, assessed, managed, monitored and reported.

Events in the year

The Group and the Company have continued to manage a significant volume of change, consistent with 2021.

The Group has strengthened its Change Management Framework (applicable to the Company) during 2022, with details of the Framework set out in the mitigation column. In September 2022 the Group appointed Jackie Noakes as Group Chief Transformation Officer and subsequently as Group Chief Operating Officer. These changes will drive further enhancements to evolve and mature the Group's change operating model.

On behalf of the Board

DocuSigned by:



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K McDermott
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

5 April 2023

 PHOENIX LIFE ASSURANCE LIMITED

Directors' report

The Company is incorporated in England and Wales. Its registration number is 1419 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Corporate governance

The corporate governance guidelines followed are the PRA's twelve aspects of governance for PRA-regulated firms as noted in their Supervisory Statement SS5/16.

In 2016, the PRA set out principles as to how a 'PRA-regulated firm' such as the Company should govern itself when it is not a listed company and is, therefore, not caught within the remit of the UK Corporate Governance Code (the "Code").

Within the guidelines, PRA-regulated firms are expected to focus on twelve aspects of governance, many of which echo the framework provided by the Code. These twelve aspects of governance, whilst not being as formal as following the Code (which is applied by the Company's ultimate parent, Phoenix Group Holdings plc), provide the Company with a framework which ensures the ability for the Board to adhere to and demonstrate compliance with all twelve aspects of governance as noted below.

This framework is assessed, reviewed and challenged by the Board on at least an annual basis with evidence focusing on the following points. For the avoidance of doubt, there have been no departures from these aspects of governance through the year:

Aspect of Governance	Demonstrated by
Setting Strategy	<p>As noted in the Directors' duties section of the Strategic report which provides an overview of how the directors have regard for their duty in respect of consequences of decisions in the long-term, an annual strategy day is held in June for the Board to debate and challenge the strategy for the Company and input to the overall Group strategy debate.</p> <p>A more refined view, developed into an Annual Operating Plan, is created for review and sign off at the end of each year which maps out the ongoing strategic direction for the following 12 months and up to 5 years thereafter.</p> <p>Board agendas are prepared so as to ensure that the more strategic items have sufficient time for review and challenge.</p> <p>Key matters discussed and challenged at the Board during the year were: the Group's Sustainability Strategy; acquisition of a closed book of business; and approval of the strategy for and management of vulnerable customers.</p>
Culture of risk awareness and ethical behaviour	<p>On an annual basis, the Board approves a series of risk appetite statements for articulation throughout the Company.</p> <p>The Group Risk Function have created and presented their assessment of Risk Culture within the business twice during the year to the Risk Committee. The Dashboard considers 17 specific objectives across People, Customers, Governance & Controls and Leadership with assessments based on a variety of inputs to include colleague surveys and Board / Committee evaluations.</p> <p>In respect of remuneration, the Non-Executive Directors input into the proposed objectives and performance ratings for those individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive and their direct reports who are also Senior Management Function Holders), as well their respective salary and remuneration packages. This ensures that these objectives promote an effective culture of risk awareness and ethical behaviour.</p> <p>In the same way, the Board was also engaged in the review of any bespoke remuneration plans for business units in advance of their consideration by the Phoenix Group Holdings plc Remuneration Committee.</p>
Risk appetite, risk management and internal controls	<p>As noted above, the risk appetite statements are approved by the Board. Oversight of risks, risk management and internal controls is delegated for oversight by both the Board Audit Committee and Board Risk Committee in line with their Terms of Reference.</p>

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Aspect of Governance	Demonstrated by
	<p>Both the Head of Internal Audit and Chief Risk Officer have access to the Chairman of the Board and the Audit Committee to raise any concerns directly. In addition, the Chief Risk Officer has direct access to the Chair of the Risk Committee.</p> <p>The operation of a three lines of defence model within the Company ensures that there is appropriate oversight, not only from the individual business unit but also from the Risk function providing risk oversight independent of management and the Internal Audit function providing independent verification of the adequacy and effectiveness of the internal controls and risk management processes in operation.</p>
Board composition	<p>In 2022, two new Non-Executive Directors were appointed, with Rosemary Harris and Timothy Harris joining the Board on 1 January 2022 and 1 May 2022 respectively. Non-Executive Director, Stephen Clarke, retired on 1 October 2022.</p> <p>As part of evolving the Group's operating model, Andrew Briggs, Peter Mayes and Rakesh Thakrar were appointed as Company Executive Directors on 1 October 2022. On the same date Michael Eakins, Andrew Moss and Jonathan Pears stood down as Company Executive Directors.</p> <p>As a result of these changes, the Board comprises 6 Non-Executive Directors (including the Chairman) and there continues to be 5 Executive Directors.</p> <p>There is a division of responsibility between the Non-Executive Chairman, who is responsible for the leadership and effective operation of the Board, and the Chief Executive Officer, who is responsible to the Board for the overall management and operation of the Company.</p>
Role of Executive and Non-Executive Directors	<p>All appointment letters and associated role profiles for Non-Executive Directors specify the requirements of the role to include constructive challenge, scrutiny of management information and the integrity of financial information.</p> <p>The 'Matters Reserved' for the Board of the Company specifies those activities for which the Board has retained approval with agendas for each meeting reminding all directors of their responsibilities under Section 172 of the Companies Act 2006.</p> <p>Board meetings, as evidenced through the Board Minutes produced, are an open forum for directors to be robust and challenge the proposals presented.</p> <p>Having a clear organisational structure allows for areas not covered by the Matters Reserved and which fall into the "day to day management" of the Company to be appropriately delegated through a structure of approved Delegations of Authority.</p>
Knowledge and experience of Non-Executive Directors	<p>The experience of the Non-Executive Directors is wide across the life insurance industry and all received a comprehensive induction on the business of the Company.</p> <p>A skills assessment is in place which identifies an individual's area of expertise such as accountancy, with-profits management, risk management, life and pensions and investments. This assessment demonstrates that our Non-Executive Directors have a substantial number of years' experience on the matters close to our Company.</p> <p>During the year, the Board is provided with regular education sessions to support any gaps in knowledge and to promote continuous professional development. During 2022, the Board received deep dives on the following topics:</p> <ul style="list-style-type: none"> • People – reward • Phoenix Insights • Cyber update • Operational resilience • Group brand • Data Protection • Quality of capital • Solvency II reform • Outsourcers • Financial Wellness • Customer calls • Culture • Illiquidity risk appetite framework

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Aspect of Governance	Demonstrated by
	<ul style="list-style-type: none"> • Net Zero Transition Plan • Individual Annuities • Reinsurance • Risk Management Framework (control and risk policy structure)
Board time and resource	<p>The Board met for 10 scheduled Board meetings in 2022 either in person or via video conference and two scheduled Sub-Committees meetings to discussed focused key matters.</p> <p>A further four out of cycle meetings were held: one to consider a decision to migrate annuity customer records for EEA customers to a newly formed Irish regulated subsidiary, two to consider the acquisition of a closed book business and one to review the Annual Operating Plan.</p> <p>As well as the Board, a number of Board Committees responsible for overseeing Audit, Risk, Nomination, With-Profits, Investment and Model Governance matters, have also been in operation during the course of the year.</p> <p>Should a Non-Executive Director be considering an additional external commitment, this is reviewed by the Board in advance during which time it is confirmed that the time commitment required will not impact their availability for Company matters.</p>
Management information (MI) and transparency	<p>The Chief Executive presents an update on the Company at least on a quarterly basis which includes a global review of the strategic objectives and associated performance to include Customer Treatment, Customer Complaints, Financial and Operational Capacity MI.</p> <p>The appointment of the Group Chief Executive as Chief Executive of the Company in October 2022 (subject to regulatory approval) has further strengthened the link, through management representation, between the Group and Life Boards.</p>
Succession planning	<p>The performance of the Chief Executive and their direct reports is considered at least annually in private sessions with the Non-Executive Directors during which more informal discussions on succession planning may take place.</p> <p>During 2022 the Board considered succession planning matters in relation to the role of Life Companies Audit Committee Chair. A skills audit exercise was undertaken during the year to support long term succession planning.</p> <p>The Board formally approved an updated version of the Board Succession Plan in December 2022.</p>
Remuneration	<p>Whilst the remuneration of executives is a matter for the Group and, specifically, the Group's Remuneration Committee, the Non-Executive Directors are provided with the information necessary to enable them to oversee the design and operation of the remuneration arrangements linked to the Company's strategic objectives. In addition, the Non-Executive Directors consider and opine on the performance outcomes of the individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive).</p>
Subsidiary boards	<p>Within the scope of Board updates, there is the flexibility to consider the activities of the Company's subsidiary companies.</p> <p>Since 1 October 2022, the Group Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are executive directors of both the Company and its ultimate parent, Phoenix Group Holdings plc. Conflicts of interest are assessed for each agenda item and, where appropriate, the CEO and CFO are recused from decision making at the meeting.</p>
Board Committees	<p>The terms of reference of the committees of the Boards of the regulated Life Companies document the duties of the committees. Any matter which cannot be properly dealt with by the committee concerned or needs to be escalated is submitted to the Board for consideration.</p> <p>Board Committee terms of reference have been amended during the course of the year, as appropriate, to ensure corporate governance arrangements remained aligned to the Group operating model.</p>

Business relationships with customers

Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Board papers require authors to consider and provide detail relating to the potential impact of proposals on customers, ensuring that the Board is able to pay due regard to such matters.

Business relationships with Partners/Suppliers

The Service Companies within the Group are the principal leads on maintaining relationships with suppliers. The Company's Board, as part of the collective Life Companies' Board, has oversight of the relationship with OSPs. The Life Companies' Board's schedule of matters reserved includes the responsibility for monitoring the performance of management service provider contracts (including services contracted with OSPs).

Energy and carbon reporting

Energy and Carbon usage information is disclosed in the Group's annual report and accounts and accordingly the Company has not reported on this in these individual financial statements.

Financial instruments

Details of the Company's financial risk management objectives and policies in respect of its use of financial instruments are included in note 34 to the financial statements.

Going concern

The Strategic report and Directors' report summarise the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, they discuss the principal risks and uncertainties it faces. Notes 33 and 34 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's ("FRC") "*Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)*" when performing their going concern assessment. To this end, the Board has undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions.

Solvency scenarios considered include the best estimate view of future economic developments (base) and a downside scenario. These were applied to 5 year projections, with the downside scenario reflecting the impacts of market disruption in the current financial year and assuming a stress period with a duration of one year from September 2022, followed by projected recovery to 2027. The projections use the below stress calibrations:

- No stress, plus 1-in-10 sensitivities up/down on UK Swaps - 10 year
- 15 bps increase in Gilts spread rise
- 50 bps increase in Credit- A rated 15 year
- Short term spike (2.5%) in RPI inflation- 10 year
- EUR 5% down vs GBP on Exchange GBP vs Euro
- USD 5% up vs GBP on Exchange GBP vs USD
- Inclusion of UK Sovereign Downgrade
- Further c£4.2bn in Downgrades over 2022/23
- 15% reduction in FTSE 100
- 8% reduction in Residential Property
- 15% reduction in Commercial Property

For the 5-year forecast period to which the downside scenario was applied, at all times the Company is anticipated to maintain sufficient headroom to meet its Capital Management Policy ("CMP") buffer.

Stress testing has additionally been carried out against a 1 in 10 all-risks scenario and a 1 in 20 fast-moving market scenario, in accordance with the Company's CMP. The projections demonstrated that excess capital over the CMP would remain in the Company under both scenarios at the scenario low points.

The impact of market volatility in the latter part of the year ended 31 December 2022 and its potential impacts on CMP was considered specifically, with the conclusion reached that the Company's existing CMP calibrations remained robust and appropriate and no amendments were required.

Contingency actions to recover from downside risks are identified in detail, including timescales required, the challenges associated with each action, and the trigger for when each action should be considered.

The Company is anticipated to be able to meet headroom of liquid assets over projected cash flows including internally imposed liquidity buffers under base conditions, and also under a combined 1 in 200 stress scenario, supporting cash generation in the going concern period assessed up to 30 June 2024. Contingency actions can be taken to achieve this if required. Liquidity is considered to be adequate to meet liabilities as they fall due.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

 PHOENIX LIFE ASSURANCE LIMITED

Directors

The names of those individuals who served as Directors of the Company during the year and who held office at the date of signature of this report are as follows:

A H Bowe	
A D Briggs	(appointed 1 October 2022)
S A Clarke	(resigned 1 October 2022)
A Curran	
M J Eakins	(resigned 1 October 2022)
R Harris	(appointed 1 January 2022)
T W Harris	(appointed 1 May 2022)
M G Hassall	
J R Lister	(Chairman)
P K Mayes	(appointed 1 October 2022)
B M Meaney	
A Moss	(resigned 1 October 2022)
J R Pears	(resigned 1 October 2022)
N H Poyntz-Wright	
R K Thakrar	(appointed 1 October 2022)

Secretary

Pearl Group Secretariat Services Limited acted as Secretary throughout the year.

Matters disclosed in strategic report

The strategic report covers future developments and any dividends paid.

Disclosure of indemnity

Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

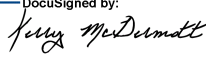
Disclosure of information to auditor

So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditor

In accordance with section 487 of the Companies Act 2006, the Company's auditor, PKF Littlejohn LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

On behalf of the Board

DocuSigned by:

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K McDermott
 For and on behalf of Pearl Group Secretariat Services Limited
 Company Secretary

5 April 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the Company's financial statements ("the financial statements") in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with UK adopted international accounting standards. Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with UK adopted international accounting standards requires the Directors to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK adopted international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with applicable UK adopted international accounting standards , subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Phoenix Life Assurance Limited**Opinion**

We have audited the financial statements of Phoenix Life Assurance Limited ('the Company') for the year ended 31 December 2022 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the directors' going concern assessment process and obtaining the assessment which covers the period to 30 June 2024;
- for the inputs used in management's going concern assessment, assessing their accuracy with reference to supporting documentation, including management's five-year Annual Operating Plan ('AOP');
- evaluating the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections, as well as additional projections based on stressed scenarios which simulate numerous economic impacts on the Company;
- assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Company;
- reading minutes of meetings of the Board and its committees; and
- assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's going concern assessment and assessing compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality

We determined the materiality threshold for the financial statements as a whole to be £13 million (2021: £18.3 million), being 2% of net assets (2021: 2% of net assets). We believe that using net assets as the basis of determining materiality is appropriate given that the Company is a closed book life assurance consolidator, whose primary focus is regulatory capital generation. The Solvency Capital Requirement and Own Funds as measured under Solvency II are non-GAAP measures and net assets is deemed to be the most closely correlated metric on an IFRS basis.

Based on our risk assessments of the Company, together with our assessment of the Company's overall control environment, our judgement was that performance materiality be set at 50% (2021: 50%) of our overall materiality, resulting in a performance materiality threshold of £6.5 million (2021: £9.0 million).

We agreed with the Board Audit Committee that we would report to them all uncorrected audit differences in excess of 5% of overall materiality, namely £650k (2021: £1 million). We also agreed to report differences below this threshold which, in our view, warranted reporting on qualitative grounds.

PHOENIX LIFE ASSURANCE LIMITED

Our approach to the audit

The assessment of audit risk, evaluation of materiality and allocation of performance materiality determine the audit scope. This enables us to form an opinion on the financial statements. We take into account the account size, risk profile and the organisation of the Company and the effectiveness of controls, including changes in the business environment when assessing the level of work to be performed.

Following our work to ensure we had a sufficient understanding of the Company's operations, including its systems and controls and the risks within the business, we designed our audit approach. This approach was designed so as to place appropriate focus on the most material areas and particularly those which are subject to the greatest amount of estimation uncertainty and involve the use of expert judgement. The most important of these areas are detailed within the Key audit matters section of our report. We ensured that our team consisted of individuals with appropriate skills and experience, including the use of auditors' experts, to be able to challenge the data, assumptions, models and results in these areas.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In summary our key audit matters are:

- Valuation of Insurance Contract Liabilities, comprising the following risk areas:
 - Actuarial assumptions;
 - Policyholder data;
- Valuation of Equity Release Mortgages; and
- Valuation of fair value hierarchy level 3 ('FVH3') Modelled Debt Securities.

Key audit matter	How our scope addressed this matter
<p>Valuation of insurance contract liabilities</p> <p><i>Refer to:</i></p> <ul style="list-style-type: none"> • <i>Note 2(a), Accounting policies - Critical accounting estimates and judgements;</i> • <i>Note 2(n), Accounting policies - Insurance contracts and investment contracts with Discretionary Participation Features ('DPF'); and</i> • <i>Note 26, Liabilities under insurance contracts.</i> 	
<p>a) Actuarial assumptions</p> <p>The valuation of the insurance contract liabilities involves the use of numerous assumptions, both economic and non-economic. We believe that the significant risk primarily relates to the non-economic assumptions given that they involve the greater use of management judgement and hence are more susceptible to bias.</p> <p>The assumptions considered most significant are: base and trend longevity, persistency, assured mortality and expenses. A small percentage change in any of these assumptions can give rise to a significant change in insurance contract liabilities.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Obtained an understanding, and tested the design and operating effectiveness, of key controls over management's process for setting and updating key non-economic actuarial assumptions; • Challenged and assessed whether the methodology used to derive the assumptions and the assumptions applied are appropriate based on our knowledge of the Company, market practice and regulatory requirements; • Reviewed and challenged the results of management's experience analyses to assess whether these justify the adopted non-economic assumptions; • With regard to the expense assumptions, we reviewed management's analysis, checking for consistency with the 5-year AOP and challenged the split of expenses between acquisition and maintenance; • Evaluated the results of management's analysis with respect to longevity improvements using the results from the industry standard Continuous Mortality Investigation ('CMI') on longevity;

PHOENIX LIFE ASSURANCE LIMITED

	<ul style="list-style-type: none"> • With assistance from our external experts, benchmarked the significant assumptions against those of other comparable industry participants; and • Obtained assurance that the assumptions used in the year-end valuation are consistent with the assumptions approved by the Board. <p><u>Key observations</u></p> <ul style="list-style-type: none"> • We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, market practice and the financial and regulatory requirements relevant to the Company. • We deemed that the expense reserves included within the best estimate liabilities for the Company are reasonable and appropriately take account of planned future operating model changes. • We concluded that the economic and non-economic assumptions have been subject to appropriate governance and have been appropriately included within the year-end actuarial models.
b) Policyholder data	
<p>The insurance contract data held on the Company's policy administration systems is a key input into the valuation process, with much of it being held by Outsourced Service Providers ('OSPs'). There are large volumes of data which need to be manipulated by management to make it fit for use in the actuarial models. Hence, the accuracy and completeness of the data is key to the valuation of the insurance contract liabilities.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Tested the adequacy and effectiveness of controls regarding the complete and accurate transfer of policyholder data from policy administration systems to the core actuarial model, focusing on management's key reconciliation controls and leveraging Service Organisation Controls ('SOC 1') reports relating to OSPs where applicable; • Confirmed that the actuarial model data extracts are consistent with those used as an input to the actuarial model and in management's experience analyses; • Assessed the appropriateness of management's grouping of policyholder data for input into the actuarial model; • Through the use of data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of policyholder data and the appropriateness of management's data cleansing rules; and • Performed the comparison of policy level data in the actuarial models and the data contained within the policy administration systems. <p><u>Key observations</u></p> <ul style="list-style-type: none"> • We determined that, based on our audit work, the data which is used as an input in the actuarial model is reasonable.

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Valuation of Equity Release Mortgages ('ERMs')

Refer to:

- Note 2(a), Accounting policies - Critical accounting estimates and judgements;
- Note 2(i), Accounting policies – Financial assets; and
- Note 18, Financial instruments.

ERMs are a significant asset class for the Company and their valuation is complex due to the fact that observable inputs are not readily available. Hence, management use internally derived models and assumptions to estimate the value of the ERM loans.

The key risk relates to the appropriateness of assumptions as they are largely based on non-observable inputs and are highly judgemental, specifically house price inflation, house price volatility, longevity (improvement and base) and early redemption.

We performed the following procedures:

- Tested the design and effectiveness of key controls over management's assumption setting processes for valuing the ERM loans;
- Tested the completeness of the ERM loans and underlying data at the year end through independent confirmation from OSPs;
- Tested accuracy of asset data used in the valuation model by agreeing a sample of new loans to third party evidence and validating any movements on existing loan data over the year;
- Evaluated the methodology, inputs and assumptions used to value the ERM loans including the No Negative Equity Guarantees ('NNEG');
- Challenged and evaluated the key assumptions by comparing to published market benchmarks or against those of other industry participants; and
- With assistance from our external experts, developed our own independent model to produce an independent valuation of the ERM loans and compared this to the valuation produced by the Company.

Key observations

- Based on our procedures performed on the ERM assumptions and policyholder data feeding into the model, we are satisfied that the valuation of the ERM assets is reasonable.

Valuation of fair value hierarchy 3 ('FVH3') Modelled Debt Securities

Refer to:

- Note 2(a), Accounting policies - Critical accounting estimates and judgements;
- Note 2(i), Accounting policies – Financial assets; and
- Note 18, Financial instruments.

We have identified a risk relating to the valuation of FVH3 Modelled Debt Securities, such as private placements, local authority loans, where the assets are held in non-profit and stressed with-profit funds. These are also a significant asset class for the Company with non-observable inputs used in the valuation.

We consider that the key risks related to the valuation of modelled debt securities to be:

- the use of complex valuation methodologies as opposed to market observable prices; and
- the significant judgement involved in setting the spread above risk-free rate, specifically the reasonableness of credit ratings and the selection of comparable bonds to derive this spread.

We performed the following procedures:

- Reviewed the SOC1 report of the OSP covering the period to 30 September 2022 and evaluated the controls over the valuation of modelled debt outsourced by the Company's OSP to a third party, determining the impact of any identified control exceptions;
- Obtained the bridging letter for the period from 1 October to 31 December 2022 to obtain assurance that the controls over the valuation of modelled debt securities were operating effectively during this period;
- Obtained an understanding of the valuation process of Modelled Debt Securities applied by the third party and assessed the appropriateness of any changes to the methodology or relevant assumptions during the year;

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	<ul style="list-style-type: none"> • Evaluated the appropriateness of the valuation methodology and calculated an independent range of reasonable values for a sample of Modelled Debt Securities, including consideration of any downgrade of credit ratings or changes of spread in management's credit watchlist and known market risks; • Validated the accuracy of security related inputs to the valuations of Modelled Debt Securities by tracing a sample of inputs to the underlying agreements and documentation; and • Performed independent calibration based on securities' implied rate and sector credit spreads to validate the reasonableness of the credit ratings used in the comparable values assessment. <p><u>Key observations</u></p> <ul style="list-style-type: none"> • Based on our procedures performed on the valuation methodology of the FVH3 Modelled Debt Securities, we are satisfied that the valuation is reasonable.
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Other information

The other information comprises the information included in the strategic report, the directors' report and the financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the Company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, a review of Board minutes, performing walkthroughs of Company processes and controls, and the application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the Company in this regard to be those arising from the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the Companies Act 2006.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the Company with those laws and regulations. These procedures included, but were not limited to:
 - enquiries of management;
 - review of management and board minutes;
 - review of legal / regulatory correspondence; and
 - agreeing financial statement disclosures to regulatory requirements.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business. Supported by our external experts, we assessed whether the valuation of insurance contract liabilities was reasonable. Refer to the key audit matters above for detail.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Board on 29 September 2022 to audit the financial statements for the period ending 31 December 2022. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2021 to 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee.

PHOENIX LIFE ASSURANCE LIMITED

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Martin Watson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

6th April 2023

PHOENIX LIFE ASSURANCE LIMITED

Statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Gross premiums written		166	191
Less: premiums ceded to reinsurers		(3)	(3)
Net premiums written		<u>163</u>	<u>188</u>
Fees and commissions	5	17	20
Total revenue, net of reinsurance payable		<u>180</u>	<u>208</u>
Net investment income	6	(2,383)	(261)
Net expense		<u>(2,203)</u>	<u>(53)</u>
Policyholder claims		(855)	(914)
Less: reinsurance recoveries		90	98
Change in insurance contract liabilities		2,984	1,106
Change in reinsurers' share of insurance contract liabilities		(203)	(149)
Transfer from / (to) unallocated surplus		83	(15)
Net policyholder claims and benefits incurred		<u>2,099</u>	<u>126</u>
Change in investment contract liabilities		143	(197)
Change in reinsurers' share of investment contract liabilities		(138)	173
Other operating expenses	7	(85)	(94)
Total operating expenses		<u>2,019</u>	<u>8</u>
Loss before finance costs and tax		<u>(184)</u>	<u>(45)</u>
Finance costs	10	(1)	-
Loss for the year before tax		<u>(185)</u>	<u>(45)</u>
Tax credit attributable to policyholders' returns	11	22	2
Loss before tax attributable to owners		<u>(163)</u>	<u>(43)</u>
Tax credit	11	45	7
Less: tax attributable to policyholders' returns		(22)	(2)
Tax credit attributable to owners		23	5
Loss for the year attributable to owners		<u>(140)</u>	<u>(38)</u>
Other comprehensive income		-	-
Total comprehensive expense for the year attributable to owners		<u>(140)</u>	<u>(38)</u>

 PHOENIX LIFE ASSURANCE LIMITED

Statement of financial position - assets

as at 31 December 2022

	Notes	As at 31 December 2022 £m	As at 31 December 2021 £m
ASSETS			
Investment property	13	18	20
Financial assets			
Loans and deposits	15	6	6
Derivatives	16	125	387
Equities		145	176
Debt securities		2,947	4,247
Subsidiaries held for investment purposes	17	2,967	5,863
Collective investment schemes		3,478	2,653
Reinsurers' share of investment contract liabilities		1,396	1,651
	18	<u>11,064</u>	<u>14,983</u>
Deferred tax assets	21	33	-
Insurance assets			
Reinsurers' share of insurance contract liabilities	26	557	761
		<u>557</u>	<u>761</u>
Current tax	21	20	18
Prepayments and accrued income	22	48	35
Other receivables	23	1,171	268
Cash and cash equivalents		78	58
Total assets		<u><u>12,989</u></u>	<u><u>16,143</u></u>

PHOENIX LIFE ASSURANCE LIMITED

Statement of financial position – equity and liabilities

as at 31 December 2022

	Notes	As at 31 December 2022 £m	As at 31 December 2021 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	24	342	342
Share premium		41	41
Capital contribution reserve	25	97	97
Retained earnings		146	436
Total equity		626	916
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	26	9,079	12,063
Unallocated surplus		255	338
		9,334	12,401
Financial liabilities			
Investment contracts		1,603	1,887
Borrowings	27	18	20
Derivatives	16	950	100
Other financial liabilities	28	274	648
	18	2,845	2,655
Provisions	29	6	5
Deferred tax liabilities	21	-	11
Reinsurance payables		7	6
Payables related to direct insurance contracts	30	155	130
Accruals		6	6
Other payables	31	10	13
Total liabilities		12,363	15,227
Total equity and liabilities		12,989	16,143

On behalf of the Board

DocuSigned by:

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P Mayes
 Director

5 April 2023

PHOENIX LIFE ASSURANCE LIMITED

Statement of changes in equity
for the year ended 31 December 2022

	Share capital (note 24) £m	Share premium £m	Capital contribution reserve (note 25) £m	Retained earnings £m	Total £m
At 1 January 2022	342	41	97	436	916
Loss for the year	-	-	-	(140)	(140)
Total comprehensive expense for the year	-	-	-	(140)	(140)
Dividends paid on ordinary shares (note 12)	-	-	-	(150)	(150)
At 31 December 2022	342	41	97	146	626

	Share capital (note 24) £m	Share premium £m	Capital contribution reserve (note 25) £m	Retained earnings £m	Total £m
At 1 January 2021	342	41	97	474	954
Loss for the year	-	-	-	(38)	(38)
Total comprehensive expense for the year	-	-	-	(38)	(38)
At 31 December 2021	342	41	97	436	916

Of the above, £133m (2021: £376m) is considered distributable.

PHOENIX LIFE ASSURANCE LIMITED

Statement of cash flows

for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from operations	32	173	1
Taxation paid		-	(1)
Net cash flows from operating activities		<u>173</u>	<u>-</u>
Cash flows from financing activities			
Ordinary share dividends paid	12	(150)	-
Repayment of borrowings	27	(3)	(6)
Net cash flows from financing activities		<u>(153)</u>	<u>(6)</u>
Net increase/(decrease) in cash and cash equivalents		20	(6)
Cash and cash equivalents at the beginning of the year		58	64
Cash and cash equivalents at the end of the year		<u><u>78</u></u>	<u><u>58</u></u>

Notes to the financial statements**1. Basis of preparation**

The financial statements for the year ended 31 December 2022, set out on pages 33 to 89, were authorised by the Board of Directors for issue on 5 April 2023.

The financial statements have been prepared on a historical cost basis except for investment property, investments in subsidiaries and associates held for investment purposes and those financial assets and financial liabilities that have been measured at fair value.

Assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of comprehensive income unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

The financial statements are presented in sterling (£) rounded to the nearest £ million except where otherwise stated.

The Company presents its Statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

The financial statements are separate financial statements and the exemption in section 400 of the Companies Act 2006 has been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent, Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.

Going Concern

The Board has considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including severe ones.

In assessing the appropriateness of the going concern basis, the Board considered base case and plausible downside liquidity and solvency projections. The downside scenarios used reflected the impacts of market disruption in the latter part of the current financial year and applied a stress period which incorporated a UK Sovereign downgrade amongst other appropriate stress calibrations.

The projections demonstrated that excess capital would remain in the Company under the downside scenario, supporting cash generation in the going concern period to 30 June 2024, and that liquidity was adequate to meet liabilities as they fell due. Having carried out this assessment, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided within the Directors' report.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2022 have been prepared in accordance with UK adopted international accounting standards and with the requirements of the Companies Act 2006, as applicable to companies reporting under those standards.

2. Accounting Policies**a) Critical accounting estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Disclosures of judgements made by management in applying the Company's accounting policies include those that have the most significant effect on the amounts that are recognised in the Company's financial statements. Disclosures of estimates and associated assumptions include those that have a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the measurement of insurance and investment contract liabilities and determination of the fair value of financial assets and liabilities. The application of critical accounting judgements that could have the most significant effect on the recognised amounts is the determination of adjusted operating profit. Details of all critical accounting estimates and judgements are included below.

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Financial statement area	Critical accounting estimates and assumptions	Related notes
Adjusted operating profit	<p>Adjusted operating profit is the Company's non-GAAP measure of performance. The Company is required to make judgements as to the appropriate longer-term rates of investment return for the determination of adjusted operating profit, based on risk-free yields at the start of each financial year, and as to what constitutes an adjusted operating or non-operating item in accordance with the accounting policy detailed in (b).</p> <p>Profits on the initial recognition of new business are included in adjusted operating profit on a basis using valuation assumptions consistent with the Company's expected longer term asset allocation attributable to that business. The impact on profit of subsequent changes in planned or actual asset allocation are excluded from adjusted operating profit.</p>	4
Insurance and investment contract liabilities	<p>Insurance and investment contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. Due to the level of annuities written by the Company, it is particularly exposed to longevity risk. At 31 December 2022, there were no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Company's results to annuitant longevity and other key insurance risks are set out in note 34</p> <p>The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivity analysis carried out is set out within note 34.</p>	26
Fair value of financial assets and liabilities	<p>The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (i) and (p) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and the notes provide further disclosures on fair value hierarchy and assumptions used to determine fair values.</p> <p>In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments.</p>	19

How climate risk affects our accounting estimates and judgments

In preparation of these financial statements, the Company has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance and investment contract liabilities. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on accounting judgments and estimates for the current period.

The majority of the Company's financial assets are held at fair value and use quoted market prices or observable market inputs in their valuation. The use of quoted market prices and market inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk. For the valuation of level 3 financial instruments, there are no material unobservable inputs that the Directors consider particularly sensitive to climate risk. Note 34 provides further risk management disclosures in relation to financial risks including sensitivities in relation to credit and market risk.

Insurance and investment contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. Due to the level of annuities written by the Company, it is particularly exposed to longevity risk. At 31 December 2022 there are no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Company's results to annuitant longevity and other key insurance risks are set out in note 34.

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b) Adjusted operating profit

The Company has chosen to report a non-GAAP measure of performance, being adjusted operating profit. Adjusted operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

This measure incorporates an expected return over the period, including a longer term return on financial investments backing shareholder and policyholder funds using risk free yields at start of year, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in adjusted operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer term asset allocation backing the business).

Adjusted operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Company's core operating activities (for example, actuarial modelling enhancements and data reviews). Adjusted operating profit is reported net of policyholder finance charges and policyholder tax.

Adjusted operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- finance costs attributable to owners;
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Company's financial performance.

Whilst the excluded items are important to an assessment of the financial performance of the Company, management considers that the presentation of the adjusted operating profit metric provides useful information for assessing the underlying performance of the Company on an ongoing basis.

The hedging strategy of the Company is calibrated to protect the regulatory capital position and cash generation capability, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the adjusted operating profit metric. In addition, significant non-recurring items are excluded where their nature is not reflective of the underlying performance of the business.

The Company therefore considers that adjusted operating profit provides a more representative indicator of the ability to generate cash available for distribution to shareholders. Accordingly, the measure is more closely aligned with the business model of the Company and how performance is managed by those charged with governance.

c) Income recognition***Gross premiums***

In respect of insurance contracts and investment contracts with discretionary participation features ("DPF"), premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Company are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis. Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Company cancels arrangements for the reinsurance of risk to another insurer.

Fee and commission income

Fee and commission income relates to the following:

- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- other fees, which are recognised as services are provided.

Net investment income

Net investment income comprises interest, dividends, fair value gains and losses and impairment reversals and losses. Fair value movements occur on financial assets, including subsidiaries held for investment purposes, while impairment reversals and losses occur on loans and investments in subsidiaries held for strategic purposes and measured at amortised cost less impairment.

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Interest income is recognised as income in the Statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised as income in the Statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised as income or expense in the Statement of comprehensive income. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

d) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Finance costs

Interest payable is recognised as an expense in the Statement of comprehensive income as it accrues and is calculated by using the effective interest method.

Change in unallocated surplus

The change in unallocated surplus recognised in the Statement of comprehensive income comprises the movement in unallocated surplus during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in unallocated surplus arising from these movements is also recognised in other comprehensive income.

Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the Statement of comprehensive income as expenses under arrangements with reinsurers.

e) Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or an expense in profit and loss except to the extent that it relates to items recognised as other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the Statement of financial position together with adjustments to tax payable in respect of previous years.

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. 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.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year. Deferred tax assets and liabilities taxed at policyholder rates are not offset against deferred tax assets or liabilities taxed at shareholder rates due to restrictions in place in life tax legislation.

f) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

g) Investment property

Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses arising from the change in fair value are recognised as income or an expense in the Statement of comprehensive income.

h) Investment in subsidiaries

The Company has two categories of investment in subsidiaries: strategic subsidiaries and investment subsidiaries. Strategic subsidiaries are operating companies which support the Group and the Company's strategic objectives, as well as certain non-trading and dormant companies. Investment subsidiaries are held to generate capital or income growth through holding investments.

The Company has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Company controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control.

The Company considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Company has the practical ability to exercise them, requires the exercise of judgement. Where the Company is deemed to control such collective investment schemes they are classified as investments in subsidiaries held for investment purposes. Where the company is deemed to exercise significant influence over such investments they are classified as associates. Where the Company has an investment but not control over these types of entities, the investment is classified as equity securities and collective investment schemes and reinsurers' share of investment contract liabilities in the Statement of financial position.

Investments in shares in subsidiaries held for strategic purposes are carried in the Statement of financial position at cost less impairment.

Investments in shares in subsidiaries held for investment purposes are carried at fair value through profit or loss.

i) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised as income or an expense in the Statement of comprehensive income.

Equities, debt securities (including those where a security has not been issued) and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the Statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies.

Impairment of financial assets

The Company assesses at each period end whether a financial asset, or group of financial assets, held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the Statement of comprehensive income.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Stock lending

Financial assets that are lent under the Company's stock lending programme do not qualify for derecognition from the Statement of financial position as the Company retains substantially all the risks and rewards of the transferred assets.

Collateral

It is the Company's practice to receive and pledge collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Company receives collateral depends on an assessment of the credit risk of the counterparty, but is usually in the form of cash or marketable securities.

Collateral received in the form of cash, where the Company has contractual rights to receive the cash flows generated and is available to the Company for investment purposes, is recognised as a financial asset in the Statement of financial position with a corresponding financial liability for its repayment. The collateral repayable is recognised as 'obligations for repayment of collateral received' in the Statement of Financial Position and is measured at amortised cost, which in the case of cash is equivalent to cost. Non-cash collateral received is not recognised in the Statement of financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Company retains the contractual rights to receive the cash flows generated is not derecognised from the Statement of financial position, unless the Company defaults on its obligations under the relevant agreement. Where the counterparty has contractual rights to receive the cash flows generated, cash and non-cash collateral pledged is derecognised from the Statement of financial position and a corresponding receivable is recognised for its return.

j) Reinsurance***Reinsurance ceded***

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment charge is recorded as an expense in the Statement of comprehensive income. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Gains or losses on purchasing reinsurance are recognised as income or an expense in the Statement of comprehensive income at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

Reinsurance accepted

The Company accepts insurance risk under reinsurance contracts. Amounts paid to cedants at the inception of reinsurance contracts in respect of future profits on certain blocks of business are recognised as a reinsurance asset. Changes in the value of the reinsurance assets created from the acceptance of reinsurance are recognised as an expense in the Statement of comprehensive income, consistent with the expected emergence of the economic benefits from the underlying blocks of business.

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At each reporting date, the Company assesses whether there are any indications of impairment. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the asset with the estimate of the recoverable amount. When the recoverable amount is less than the carrying value, an impairment charge is recognised as an expense in the Statement of comprehensive income. Reassurance assets are also considered in the liability adequacy test for each reporting period.

k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than 3 months to maturity from the date of acquisition.

l) Share capital and capital contributions

The Company has issued ordinary shares which are classified as equity. Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the Statement of changes in equity. The capital contribution reserve is distributable subject to the availability of distributable reserves.

m) Classification of contracts

Contracts are classified as insurance contracts where the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain event adversely affects the policyholder.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a DPF. This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as reinsurance contracts.

n) Insurance contracts and investment contracts with DPF

Insurance liabilities

Insurance contract liabilities for non-participating business, other than unit linked insurance contracts, are calculated on the basis of current data and assumptions, using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for on individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

For unit linked insurance contract liabilities the provision is based on the fund value, together with an allowance for any excess of future expenses over charges, where appropriate.

For participating business, the liabilities under insurance contracts and investment contracts with DPF are calculated in accordance with the following methodology:

- liabilities to policyholders arising from the with-profits business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities.

The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method.

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The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally calculated using a stochastic model.

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management.

The principal assumptions are given in note 26.

Present value of future profits on non-participating business in the with-profits funds

For UK with-profits funds, an amount may be recognised for the present value of future profits ("PVFP") on non-participating business written in a with-profits fund where the determination of the value of liabilities in that with-profits fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders this amount is recognised as a reduction in the liability rather than as an intangible asset, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the PVFP on this non-participating business to policyholders the present value of future profits on this business is recognised as an intangible asset and changes in its value are recorded as a separate item of income or expense in the Statement of comprehensive income.

The value of PVFP is determined in a manner consistent with the measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, which are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP.

The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 26.

Embedded derivatives

Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy

At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows (contractual cash flows, related cash flows such as claims handling costs, and cash flows resulting from embedded options and guarantees) are compared to the carrying value of the liabilities. Any deficiency is charged as an expense to the Statement of comprehensive income.

The Company's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*.

Unallocated surplus

The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profits business. For the Company's with-profits funds, the amount included in the Statement of financial position line item 'Unallocated surplus' represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts. The with-profits funds are closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a separate liability.

If the realistic value of liabilities to policyholders exceeds the value of the assets in any with-profits fund, the unallocated surplus is valued at £nil.

o) Investment contracts without DPF

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the Statement of financial position as an adjustment to the liability to the policyholder.

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The valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Investment income attributable to, and the movements in the fair value of, investment contracts without DPF are included in 'Change in investment contract liabilities' as income or an expense in the Statement of comprehensive income.

p) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration payable or received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed). Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

q) Borrowings

Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised as income or an expense in the Statement of comprehensive income over the period of the borrowing using the effective interest method.

Reversion loans are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

r) Provisions and contingent liabilities

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Company has a present legal or constructive obligation but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

s) Payables related to direct insurance contracts

Payables related to direct insurance contracts includes balances for outstanding claims. Outstanding claims under insurance contracts and investment contracts with DPF are valued using a best estimate method under IFRS 4. Outstanding claims under investment contracts without DPF are measured at full settlement value in accordance with IAS 39.

t) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

3. New and amended accounting standards

New accounting pronouncements not yet effective

The International Accounting Standards Board ("IASB") has issued the following standards or amended standards which apply from the dates shown. The Company has decided not to early adopt any of these standards or amendments where this is permitted.

IFRS 17 Insurance Contracts, including subsequent amendments to the standard (1 January 2023)

IFRS 17 was issued by the International Standards Board in May 2017 and amended in June 2020. The standard was endorsed by the UK Endorsement Board in May 2022. IFRS 17 is effective from 1 January 2023.

IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Company measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users.

In June 2022, the IFRS Interpretations Committee ("IFRIC") provided its final agenda decision on the 'Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17', a non-objection from the International Accounting Standards Board was provided in July 2022.

The total profit recognised over the lifetime of contracts within the scope of IFRS 17 will not change from the total profit recognised under IFRS 4 and will continue to be recognised in the Statement of comprehensive income.

The Group's implementation project, of which the Company is a subsidiary and within scope, continued throughout 2022 with a focus on continuing to develop and embed the operational capabilities required to implement IFRS 17 including data, systems and business processes, and determining the transition balance sheet as at 1 January 2022. The focus for 2023 is on finalising the transition balance sheet and the 2022 comparatives required for 2023 reporting, and implementation of the end state control environment. Detail on the Group's approach to transition and the impact assessment is available in note A5 of the Group accounts.

IAS 8 requires an entity to disclose all known or reasonable estimable information regarding the possible impact that the application of a new IFRS is expected to have on its financial statements. At the date of issuing these financial statements the financial impact of transition to IFRS 17 on Retained Earnings at 1 January 2022 is not reasonably estimable as work continues to deliver these later this year.

Additionally, the Company anticipates, subject to regulatory approval, completing a Part VII of its business to PLL during the second half of 2023. The impact of IFRS 17 will mainly be on transition to IFRS 17 and in the value of the business transferred to PLL.

IFRS 9 Financial Instruments (1 January 2023)

Under IFRS 9, all financial assets will be measured at either amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In addition, the general hedge accounting requirements have been updated under IFRS 9 to better reflect risk management activities of the Company.

The Company has to date taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Company's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%.

IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 Insurance Contracts) effective from 1 January 2023. During the year, the Company completed its assessment of the impacts of adopting IFRS 9. The classification of the Company's financial assets has been reviewed and it has been determined that financial assets backing insurance liabilities will continue to be measured at fair value through profit or loss ("FVTPL"). The business model assessment concluded that these assets are actively managed and evaluated on a fair value basis and as such would be mandatorily classified at FVTPL. It is not expected that use of the fair value option, as permitted by IFRS 9, to designate assets as FVTPL to avoid an accounting mismatch will be required.

The new standard replaces the incurred loss model with an expected credit loss model for financial assets measured at amortised cost or at FVOCI. The proportion of financial assets classified at amortised cost is relatively small as a proportion of the total and due to the credit risk profile of these assets being investment grade, the expected credit loss on these assets is not expected to be material and therefore there will be limited financial impact on the Company.

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A number of additional disclosures will be required by IFRS 7 *Financial Instruments: Disclosures* as a result of implementing IFRS 9. Additional disclosures have been made to the financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.

- **Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*) (1 January 2023):** The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments are not expected to have any impact on the Company.
- **Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) (1 January 2023):** The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the Standard by including a number of clarifications. These amendments are not expected to have any impact on the Company.
- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*) (1 January 2023):** The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences. There will potentially be some additional disclosures required in relation to the Company's leasing arrangements as a result of implementing these amendments.
- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 *Presentation of Financial Statements*) (1 January 2023):** The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.
- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 *Leases*) (1 January 2023):** The amendments relate to how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction. On initial recognition, the seller-lessee is required to include variable lease payments when measuring a lease liability arising from a sale and leaseback transaction. After initial recognition, they are required to apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognised. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation. These amendments are not expected to have any impact on the Company.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date deferred):** The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. These amendments are not expected to have any impact on the Company.

On 31 January 2020, the UK left the EU and effective from 1 January 2021, the European Commission no longer endorses IFRSs for use in the UK. UK legislation provides that all IFRSs that had been endorsed by the EU on or before the 31 December 2020 became UK-adopted international accounting standards. New or amended IFRSs are now endorsed by the UK Endorsement Board following delegation of powers to endorse and adopt IFRSs for the UK by the Secretary of State in May 2021.

The following amendments to standards listed above have been endorsed for use in the UK by the UK Endorsement Board:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 17;
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information;
- Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments to IFRS 9 *Financial Instruments* formed part of the EU-adopted IFRSs which were adopted by the UK on 1 January 2021 and have previously been endorsed by the EU.

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4. Adjusted Operating Profit**Reconciliation of adjusted operating profit to loss before tax attributable to owners**

	2022	2021
	£m	£m
Adjusted operating profit	89	25
Investment return variances and economic assumption changes on long-term business	(246)	(65)
Other non-operating items	(6)	(3)
Loss before tax attributable to owners	<u>(163)</u>	<u>(43)</u>

Key drivers of adjusted operating profit

	2022	2021
	£m	£m
Expected returns, including the owners' share of with-profits bonus	51	51
Changes in demographic assumptions	24	(17)
Change in demographic experience	2	(6)
Changes in model and methodology	9	(8)
New business	3	5

Other non-operating items

Non-operating items other than investment return variances in 2022 include:

- £(2)m in respect of costs incurred from the policy migration activity to move to a single digitally enhanced outsourcer platform.
- £(2)m in respect of costs incurred from IFRS 17 implementation activity.
- £(1)m in respect of costs incurred from ongoing work to deliver a long term strategic solution for the production of policy data into our actuarial modelling platform

Non-operating items other than investment return variances in 2021 include:

- £(2)m in respect of costs incurred from IFRS 17 implementation activity.
- £(1)m in respect of costs incurred from ongoing work to deliver improvements to the management and oversight of an expanding credit asset portfolio.

Investment return variances

The investment return variances and economic assumption changes excluded from the long-term business adjusted operating profit largely arise due to differences in the IFRS reporting basis compared to the hedged Solvency II position, after allowance for risk capital.

Calculation of the long-term investment return

The long-term nature of much of the Company's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Company focuses instead on an adjusted 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:

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 risk-free yields 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 a swap curve, plus 36bps (2021: 10bps). A risk premium is added to the risk-free yield according to asset type as shown below.

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	Long term investment return assumption		Risk premium	
	2022	2021	2022	2021
	%	%	Bps	Bps
Equities	4.6	4.1	334	349
Properties	3.7	3.1	244	249
Gilts	1.3	0.8	-	15
Corporate bonds	1.8	1.2	52	55

5. Fees and commissions

	2022	2021
	£m	£m
Annual management charges ("AMC")	17	20
Total fees and commissions	17	20

Annual management charges are recognised over time as the Company provides investment management services. The percentage fee is specified in the policy documents. There are no remaining performance obligations as the revenue recognised corresponds to the value to the customer.

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers.

6. Net investment income

	2022	2021
	£m	£m
<i>Investment income</i>		
Interest income on financial assets designated at fair value through profit or loss	107	109
Dividend income	123	95
	230	204
<i>Fair value (losses) / gains on items at fair value through profit or loss</i>		
Financial assets and liabilities		
Held for trading – derivatives	(1,130)	(406)
Designated upon initial recognition	(1,409)	(168)
Investment in subsidiaries (note 17)	(76)	106
Investment property (note 13)	2	3
	(2,613)	(465)
Net investment income	(2,383)	(261)

7. Other operating expenses

	2022	2021
	£m	£m
Outsourcing expenses	70	70
Investment management expenses and transaction costs	15	24
	85	94

Employee costs

The Company has no employees. Administrative services are provided by Pearl Group Services Limited ("PGS"), a fellow group company.

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8. Directors' remuneration

	2022	2021
	£000	£000
Remuneration (executive and non-executive Directors' remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	884	876
Share option schemes and other long-term benefits	751	455
Contributions to money purchase pension schemes	1	-
	1,636	1,331

	2022	2021
	Number	Number
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	3	1
Number of Directors who had exercised share options during the year	5	3
	2022	2021
	£000	£000
Highest paid Director's remuneration	265	236

The highest paid Director did not exercise share options during the year.

The Executive Directors are employed by either Phoenix Group Management Services Limited (formerly known as Pearl Group Management Services Limited) ("PGMS"), Standard Life Assets and Employee Services Limited ("SLAESL") or ReAssure UK Services Limited ("RUKSL"). The Non-Executive Directors are not employed but provide their services via a letter of appointment. For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

9. Auditor's remuneration

	2022	2021
	£000	£000
<i>PKF Littlejohn LLP</i>		
Audit of the Company's financial statements	467	497
	467	497

During the financial year ended 31 December 2022, PKF Littlejohn LLP ("PKF") acted as the Company's external auditor. PKF received no remuneration for services other than the statutory audit of the Company.

10. Finance costs

	2022	2021
	£m	£m
Interest expense		
On financial liabilities at amortised cost	1	-
	1	-

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11. Tax (credit) / charge**Current year tax credit**

	2022 £m	2021 £m
Current tax:		
UK Corporation tax	-	(6)
Adjustment in respect of prior years	(1)	(1)
Total current tax	<u>(1)</u>	<u>(7)</u>
Deferred tax	<u>(44)</u>	-
Total tax credit	<u>(45)</u>	<u>(7)</u>
Attributable to:		
- policyholders	(22)	(2)
- owners	(23)	(5)
Total tax credit	<u>(45)</u>	<u>(7)</u>

The Company, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in the income tax expense.

Reconciliation of tax credit

	2022 £m	2021 £m
Loss for the year before tax	(185)	(45)
Tax credit attributable to policyholders' returns	22	2
Loss before tax attributable to owners	<u>(163)</u>	<u>(43)</u>
Tax at standard UK rate of 19% (2021: 19%)	(31)	(8)
Profits taxed at rates other than 19%	14	4
Deferred tax rate change	(4)	-
Adjustment to owners' tax in respect of prior years	(1)	(1)
Other	(1)	-
Tax credit attributable to owners	<u>(23)</u>	<u>(5)</u>
Tax credit attributable to policyholders' returns	<u>(22)</u>	<u>(2)</u>
Total tax credit	<u>(45)</u>	<u>(7)</u>

12. Dividends on ordinary shares

	2022 £m	2021 £m
Interim dividend for 2022 at 44p per 'B' share (2021: nil)	150	-
	<u>150</u>	<u>-</u>

13. Investment property

	2022 £m	2021 £m
At 1 January	20	25
Disposals	(4)	(8)
Fair value gains	2	3
At 31 December	<u>18</u>	<u>20</u>
Unrealised gains /(losses) in the period on assets held at the end of the year	<u>1</u>	<u>(2)</u>

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Fair value measurement

The fair value measurement of investment property has been categorised as a level 3 fair value based on the inputs to the valuation techniques used.

The residential property reversions arise from sales of the NPI Extra Income Plan. These interests in customers' properties that the Company will realise upon their death are valued using a DCF model based on the Company's proportion of the current open market value, discounted for the lifetimes of the policyholders derived from published mortality tables. The open market value is measured using RICS valuations. The individual properties are valued triennially and indexed using regional house price indices to the balance sheet date. The residential property reversions have been substantially refinanced under the arrangements with Santander described in note 27.

The following table shows the valuation techniques used in measuring the fair value of each class of investment property and the significant non-observable inputs used:

Description	Valuation technique	Significant inputs	Unobservable input value	
			2022	2021
Residential property reversions	Internally developed model and RICS valuations	Mortality rate	130% IFL92C15 (Female) 130% IML92C15 (Male)	130% IFL92C15 (Female) 130% IML92C15 (Male)
		House price inflation	3 year RPI rate plus 0.75%	3 year RPI rate plus 0.75%
		Discount rate	3 year swap rate plus 1.7% margin	3 year swap rate plus 1.7% margin
		Deferred possession rate	3.7%	3.7%

14. Subsidiaries held for strategic purposes

	2022 £m	2021 £m
Cost		
At 1 January and 31 December	894	894
Impairment		
At 1 January and 31 December	894	894
Carrying amount		
At 31 December	-	-

Investments in subsidiaries held for strategic purposes are held at cost less impairment. A listing of subsidiaries at 31 December 2022 can be found at note 37.

15. Loans and deposits

	2022 £m	2021 £m
Loans and deposits at amortised cost - loans secured on policies	6	6
Total loans and deposits	6	6
Amount recoverable after 12 months	6	6

16. Derivatives

The Company purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Company does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin. The Company also holds derivatives to hedge financial liabilities denominated in foreign currency.

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All derivative instruments have been classified as held for trading and are not part of a designated IAS 39 hedging relationship.

The Company pledges and receives collateral in respect of its derivative positions. Further information is provided in note 18.

The fair values of derivative financial instruments are:

	2022	2022	2021	2021
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Forward currency	17	3	5	1
Interest rate swaps	59	904	343	72
Cross currency swaps	1	24	11	2
Inflation swaps	44	19	27	21
Stock index futures	4	-	1	4
	125	950	387	100
	125	950	387	100

17. Investment in subsidiaries held for investment purposes

	2022	2021
	£m	£m
At 1 January	5,863	7,434
Additions	512	3,324
Disposals	(1,238)	(3,642)
Fair value (losses) / gains	(76)	106
Transfers out to collective investment schemes	(2,094)	(1,426)
Transfers in from equities	-	67
At 31 December	2,967	5,863

As at 31 December, an analysis of Open Ended Investment Companies ("OEIC's"), Unit Trusts, Société d'Investissement à Capital Variable ("SICAVs") and private equity funds is carried out to assess the level of control to determine whether they are investments in subsidiaries or financial assets. Resulting transfers between investment in subsidiaries and financial assets are recognised at the opening value.

A listing of subsidiaries can be found at note 37.

The fair value measurements of the investment in subsidiaries are classified in accordance with the principles in note 18, and information on the valuation methodology and hierarchy is given in that note.

18. Financial instruments

IFRS 9 Financial Instruments

As set out in note 3 the Company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9. The tables below give the additional disclosures required by insurers taking this exemption:

	2022	2022	2021	2021
	Fair Value	Change in	Fair Value	Change in
	£m	fair value	£m	fair value
	£m	£m	£m	£m
Financial assets with contractual cash flows that are solely principal and interest ("SPPI") excluding those held for trading, or managed on a fair value basis				
Loans and deposits	6	-	6	-
Cash and cash equivalents	78	-	58	-
Other receivables	1,171	-	268	-
Accrued income	16	-	-	-
All other financial assets	11,058	(2,610)	14,977	(467)
Total	12,329	(2,610)	15,309	(467)

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At 31 December 2022

	AA £m	A £m	Non-Rated £m	Total £m
Loans and deposits	-	-	6	6
Cash and cash equivalents	-	78	-	78
Other receivables	-	-	1,171	1,171
Accrued income	-	-	16	16
	-	78	1,193	1,271

At 31 December 2021

	AA £m	A £m	Non-Rated £m	Total £m
Loans and deposits	-	-	6	6
Cash and cash equivalents	7	51	-	58
Other receivables	-	-	268	268
	7	51	274	332

Expected settlement dates

	Amounts recoverable after 12 months		Amounts recoverable after 12 months	
	Total 2022 £m	2022 £m	Total 2021 £m	2021 £m
Financial assets				
Loans and deposits at amortised cost	6	6	6	6
<i>Financial assets at fair value through profit or loss</i>				
Derivatives held for trading	125	99	387	375
Designated upon initial recognition				
Equities	145	-	176	-
Debt securities	2,947	2,781	4,247	4,038
Subsidiaries held for investment purposes	2,967	-	5,863	-
Collective investment schemes	3,478	-	2,653	-
Reinsurers' share of investment contract liabilities	1,396	-	1,651	-
	11,064	2,886	14,983	4,419

	Amounts due for settlement after 12 months		Amounts due for settlement after 12 months	
	Total 2022 £m	2022 £m	Total 2021 £m	2021 £m
Financial liabilities				
<i>Financial liabilities at fair value through profit or loss</i>				
Derivatives held for trading	950	945	100	95
Designated upon initial recognition				
Investment contracts	1,603	-	1,887	-
Borrowings	18	18	20	20
Other financial liabilities	223	187	335	317
<i>Financial liabilities measured at amortised cost</i>				
Other financial liabilities	51	-	313	-
	2,845	1,150	2,655	432

Due to the nature of equities, collective investment schemes and reinsurers' share of investment contract liabilities, there is no fixed term associated with these items.

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Equity Release Mortgage loans

	2022 £m	2021 £m
Legal title held by:		
Loan originators	81	140
Fellow subsidiaries	142	194
	<u>223</u>	<u>334</u>
 Beneficial interest transferred to strategic subsidiaries in the year	 -	 <u>341</u>

The Company has a beneficial interest in a portfolio of equity release mortgage (“ERM”) loans, included within debt securities. The legal title to certain loans resides with PGS, a fellow group company.

On 10 November 2021 the Company acquired a portfolio of ERM from a fellow group company, Phoenix Life Limited, for consideration of £341m. On the same day, the Company transferred the beneficial interest of these ERM loans to Phoenix ER2 Limited (“PER2L”), a wholly owned strategic subsidiary. PER2L issued a tranche of Fixed Rate and Junior Loan Notes to the Company as consideration for the transfers. The ERM loans do not qualify for derecognition as the Company retains substantially all the risks and rewards of the ERM loans.

The Fixed Rate Loan Notes accrue interest based on a fixed schedule of cashflows, and are repayable on specified dates. The Junior Loan Notes pay interest to the extent that surplus funds are available on the specified dates and have a long stop repayment date of the 50th anniversary of the issue of the notes.

Offsetting financial assets and financial liabilities

The Company has no financial assets and financial liabilities that have been offset in the Statement of financial position as at 31 December 2022 (2021: none).

The Company’s over the counter (“OTC”) derivatives are all subject to an International Swaps and Derivative Association (“ISDA”) master agreement, which is considered a master netting agreement. Such agreements do not meet the criteria for offsetting in the Statement of financial position as the Company has no current legally enforceable right to offset recognised financial instruments. Furthermore, certain related assets received as collateral under the netting arrangements will not be recognised in the Statement of financial position as the Company does not have permission to sell or re-pledge, except in the case of default. The table below contains disclosures related to financial assets and financial liabilities recognised in the Statement of financial position that are subject to enforceable master netting arrangements or similar agreements.

At 31 December 2022

	Gross amounts of recognised financial instruments £m	Related amounts not offset		Derivative assets / liabilities subject to netting arrangement £m	Net amount £m
		Financial instruments received / pledged as collateral £m	Cash received / pledged as collateral £m		
Financial assets					
OTC Derivatives	120	9	47	66	(2)
Exchange traded derivatives	5	-	5	-	-
Stock lending	511	558	-	-	(47)
Total assets	<u>636</u>	<u>567</u>	<u>52</u>	<u>66</u>	<u>(49)</u>
Financial liabilities					
OTC Derivatives	950	168	771	66	(55)
Total liabilities	<u>950</u>	<u>168</u>	<u>771</u>	<u>66</u>	<u>(55)</u>

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At 31 December 2021

Related amounts not offset

	Gross and net amounts of recognised financial instruments £m	Financial instruments received / pledged as collateral £m	Cash received / pledged as collateral £m	Net amount £m
Financial assets				
OTC Derivatives	386	42	312	32
Exchange traded derivatives	1	-	1	-
Stock lending	729	807	-	(78)
Total assets	1,116	849	313	(46)
Financial liabilities				
OTC Derivatives	96	58	21	17
Exchange traded derivatives	4	-	4	-
Total liabilities	100	58	25	17

Collateral

See accounting policies note (i) for a description of the circumstances in which assets are recognised or derecognised from the Statement of Financial Position.

At 31 December 2022

	OTC derivatives £m	Exchange traded derivatives £m	Reinsurance £m	Stock lending £m
<i>Collateral accepted</i>				
Not recognised	9	-	662	558
Recognised assets	47	5	-	-
Recognised liabilities	(47)	(5)	-	-
Maximum exposure to credit risk	120	5	557	511
Risk mitigated by use of collateral	(120)	(5)	(539)	(511)
Remaining risk	-	-	18	-
<i>Collateral pledged</i>				
Pledged as collateral	939	-	-	-
In respect of liabilities of	950	-	-	-

At 31 December 2021

	OTC derivatives £m	Exchange traded derivatives £m	Reinsurance £m	Stock lending £m
<i>Collateral accepted</i>				
Not recognised	42	-	901	807
Recognised assets	312	1	-	-
Recognised liabilities	(312)	(1)	-	-
Maximum exposure to credit risk	386	1	761	729
Risk mitigated by use of collateral	(375)	(1)	(730)	(729)
Remaining risk	11	-	31	-
<i>Collateral pledged</i>				
Pledged as collateral	91	4	-	-
In respect of liabilities of	96	4	-	-

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Assets not derecognised

The carrying value of listed financial assets lent at 31 December 2022 that have not been derecognised amounted to £511m (2021: £729m) of real estate investment trusts and debt securities.

19. Fair Value

The carrying value of financial assets and liabilities measured at amortised cost approximates their fair value. Assets and liabilities for which fair value is not disclosed are noted below.

	Carrying value 2022 £m	Fair Value 2022 £m	Carrying value 2021 £m	Fair Value 2021 £m
<i>Assets and liabilities for which fair value is not disclosed</i>				
Investment contracts with DPF (note 26)	3,759	n/a	4,835	n/a
Obligations for repayment of collateral received (note 28)	51	n/a	313	n/a

It is not possible to reliably calculate the fair value of participating investment contract liabilities, included within liabilities under insurance contracts in the Statement of Financial Position. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and note 26.

Obligations for repayment of collateral received, disclosed within other financial liabilities, have no expected settlement date. As the obligations relate to the repayment of collateral received in the form of cash, the liability is stated at the value of the consideration received and therefore no fair value has been disclosed.

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 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

The fair values of financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified as Level 2, only where there is a sufficient range of available quotes. The fair value of over the counter derivatives is estimated using pricing models or discounted cash flow techniques. Collective investments 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.

All the Company's Level 1 and Level 2 assets measured at fair value have been valued using standard market pricing sources.

Level 3 financial instruments

The Company's financial instruments determined by valuation techniques using non market observable 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, 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, with inputs that may not be fully market observable. Where possible and appropriate, inputs into such models are based on market observable data. The fair value of loans and some borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Transfers

For financial instruments that are recognised at fair value on a recurring basis, the Company 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) at the middle and end of each reporting period. Transfers identified are deemed to have taken place at the start of the reporting period.

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Fair value hierarchy of financial instruments

Fair value hierarchy information for non-financial assets measured at fair value is included in note 13 for investment properties.

At 31 December 2022

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial assets measured at fair value</i>				
Derivatives	5	120	-	125
<i>Financial assets designated at fair value through profit or loss upon initial recognition</i>				
Equities	74	-	71	145
Debt securities	2,173	170	604	2,947
Subsidiaries held for investment purposes	1,795	-	1,172	2,967
Collective investment schemes	3,405	49	24	3,478
Reinsurers' share of investment contract liabilities	-	1,396	-	1,396
Total financial assets measured at fair value	7,452	1,735	1,871	11,058
<i>Financial assets for which fair values are disclosed</i>				
Loans and deposits at amortised cost	-	6	-	6
Total financial assets	7,452	1,741	1,871	11,064

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial liabilities measured at fair value</i>				
Derivatives	-	950	-	950
<i>Financial liabilities designated at fair value through profit or loss upon initial recognition</i>				
Investment contract liabilities	-	1,603	-	1,603
Borrowings	-	-	18	18
Other financial liabilities	-	-	223	223
Total financial liabilities measured at fair value	-	2,553	241	2,794

At 31 December 2021

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial assets measured at fair value</i>				
Derivatives	1	386	-	387
<i>Financial assets designated at fair value through profit or loss upon initial recognition</i>				
Equities	95	-	81	176
Debt securities	3,143	234	870	4,247
Subsidiaries held for investment purposes	4,752	-	1,111	5,863
Collective investment schemes	2,595	58	-	2,653
Reinsurers' share of investment contract liabilities	-	1,651	-	1,651
Total financial assets measured at fair value	10,586	2,329	2,062	14,977
<i>Financial assets for which fair values are disclosed</i>				
Loans and deposits at amortised cost	-	6	-	6
Total financial assets	10,586	2,335	2,062	14,983

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	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
<i>Financial liabilities measured at fair value</i>				
Derivatives	4	96	-	100
<i>Financial liabilities designated at fair value through profit or loss upon initial recognition</i>				
Investment contract liabilities	-	1,887	-	1,887
Borrowings	-	-	20	20
Other financial liabilities	-	-	335	335
Total financial liabilities measured at fair value	4	1,983	355	2,342

At 31 December 2022

	From level 1 to level 2	From level 2 to level 1
	£m	£m
<i>Designated at fair value through profit or loss upon initial recognition</i>		
Debt securities	15	4

At 31 December 2021

	From level 1 to level 2	From level 2 to level 1
	£m	£m
<i>Designated at fair value through profit or loss upon initial recognition</i>		
Debt securities	31	7

There were no transfers of financial liabilities at fair value between Level 1 and Level 2 and between Level 2 and Level 1.

The application of the Company'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, have resulted in an overall net movement of debt securities from Level 1 to Level 2 in both the current period and prior period.

Financial instrument valuation methodology**Derivative financial assets and liabilities**

OTC derivatives are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and OTC derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk to derivative assets arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Company's risk management policies. At 31 December 2022 and 31 December 2021 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Equities, collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

The Company's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Company's private equity investments are carried out through European fund of funds structures, where the Company receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting financial year. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities are valued in the same way as equities.

Debt securities

For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Company has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

ERM loans and other debt securities

The ERM 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 thereafter.

Cash flows are discounted using a risk free curve plus a spread, where the spread is based on current customer rates, with margins to allow for the different risk profiles of ERM loans. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin and term of the loan. Experience analysis is used to inform this assumption, however where experience is limited for more recently originated loans, significant expert judgement is required.

These instruments are classified as level 3 in the fair value hierarchy.

In order to benefit from the matching adjustment on the regulatory basis, the ERM loans are securitised into tranches of fixed rate senior notes and variable junior loan notes via a special purpose vehicle wholly owned by the Company. Other debt securities include £249m (31 December 2021: £343m) of these loan notes. Where ERM loans are securitised, there is an offsetting impact in insurance liabilities for changes in discount rate via the matching adjustment. This results in any net financial impact of change in spread being substantially offset by a corresponding movement in insurance liabilities.

Government, including provincial and municipal, and supranational institution bonds

These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.

Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)

These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Company performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit

These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Commercial mortgages

These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy is level 3 due to this adjustment.

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Assets at amortised cost*Policyholder loans*

The loans and deposits at amortised cost are policyholder loans (see note 15). The fair value of these instruments is considered to be equivalent to their amortised cost.

Investment contract liabilities

The fair value of the unit-linked contracts is calculated to be equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

Borrowings at FVTPL*Property reversion loans*

A description of the property reversion loans can be found in note 27. These instruments are valued using models and due to the level of unobservable inputs are classified as level 3.

Other financial liabilities*Insurance liabilities for securitised loans*

These liabilities represent the obligation created due to the ERM loans not meeting the derecognition criteria discussed above in debt securities. Accordingly, their value is dependent on the ERM loan valuation, and they are classified as level 3 in the fair value hierarchy.

Insurance contract liabilities

As permitted by IFRS 7, the Company has not disclosed fair values for investment contracts with a DPF (disclosed within insurance contract liabilities) as fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business. The assumptions and methods used in the calculation of these liabilities, and the carrying values at the year end, are set out in the accounting policies and note 26.

Significant inputs for Level 2 instruments and instruments measured at amortised cost

Description	Valuation technique	Significant inputs
<i>OTC Derivative assets and liabilities</i>	Pricing models	N/A
<i>Financial assets</i>		
Debt securities	Quoted market prices	N/A
Subsidiaries held for investment purposes	Net asset value statements ¹	N/A
Collective investment schemes	Quoted market prices	N/A
Loans and deposits at amortised cost	Equivalent to amortised cost	N/A
<i>Financial liabilities</i>		
Investment contract liabilities	DCF model ²	Discount rate

1. *Net asset value statements*: Net asset statements are provided by independent third parties, and therefore no significant non-observable input or sensitivity information has been prepared for those instruments valued on this basis.
2. *Discounted cash flow ("DCF") model*: Except where otherwise stated, the discount rate used is based on a risk-free curve and a credit spread. The spread is derived from a basket of comparable securities.

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Significant inputs and input values for Level 3 instruments

Description	Valuation technique	Significant inputs	Unobservable input value	
			2022	2021
<i>Debt securities</i>				
ERM loans	DCF model ¹ and Black-Scholes model	Spread	Average 2.6% over SONIA swap curve + 36bps	Average 1.7% over SONIA swap curve + 36bps
		Mortality	Based on published tables Adjusted PCA00	Based on published tables Adjusted PCA00
		Voluntary redemption rate	1.5% to 7%	1.5% to 7%
Illiquid assets	DCF model ¹	Credit spreads	195 bps (weighted average)	106 bps (weighted average)
Other debt securities – ERM related	Underlying valuation based on ERM loans – see above			
Other debt securities – other	Broker quotes ²	N/A	N/A	N/A
<i>Equity</i>	Single broker ² and net asset value ³	Single broker indicative price	N/A	N/A
<i>Subsidiaries held for investment purposes</i>	Net asset value statements ³		N/A	N/A
<i>Borrowings</i>				
Property reversion loans	Internally developed model	Mortality rate	PFL92 (Female) PML92 (Male)	PFL92 (Female) PML92 (Male)
		House price inflation	3-year RPI rate plus 0.75%	3-year RPI rate plus 0.75%
		Discount rate	3 year swap yield	3 year swap yield
		Deferred possession rate	3.7%	3.7%
<i>Other liabilities</i>				
Insurance liabilities for securitised loans	Underlying valuation based on ERM loans – see above			

1. *DCF model*: See above in level 2 instruments and instruments measured at amortised cost
2. *Broker indicative prices*: Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly
3. *Net asset value statements*: See above in level 2 instruments and instruments measured at amortised cost

	2022	2021
	£m	£m
<i>Debt securities comprise:</i>		
ERM loans	223	334
Illiquid assets	132	193
Other debt securities	249	343
	<u>604</u>	<u>870</u>

Illiquid assets

Illiquid assets comprise commercial real estate loans and local authority loans.

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Sensitivities of level 3 financial instruments

	2022 £m	2021 £m
<i>Illiquid assets</i>		
65 bp increase in spread	(7)	(14)
65 bp decrease in spread	8	15
<i>ERM loans</i>		
100bp increase in spread	(14)	(27)
100bp decrease in spread	15	30
5% increase in mortality	-	(2)
5% decrease in mortality	-	1
15% increase in voluntary redemption rate	1	(3)
15% decrease in voluntary redemption rate	(1)	3
1% increase in house price inflation	1	2
1% decrease in house price inflation	(2)	(4)

For the property reversion loans there are no reasonably possibly movements in unobservable input values which would result in a significant movement in the fair value of the financial instruments.

For those assets valued using net asset value statements (equities, subsidiaries held for investment and collective investment schemes) no sensitivity information has been prepared as the net asset statements are provided by independent third parties.

Movement in level 3 financial instruments measured at fair value**Financial assets 2022**

	Equities £m	Debt securities £m	Collective investment schemes £m	Investment subsidiaries £m	Total £m
At 1 January 2022	81	870	-	1,111	2,062
Total (losses) / gains in Statement of comprehensive income	(20)	(214)	-	73	(161)
Purchases	13	7	24	162	206
Sales/ Redemptions	(3)	(54)	-	(174)	(231)
Transfers out of level 3	-	(5)	-	-	(5)
At 31 December 2022	71	604	24	1,172	1,871
Unrealised (losses) / gains in the period on assets held at end of the year	(4)	(216)	(1)	49	(172)

Financial assets 2021

	Equities £m	Debt securities £m	Investment subsidiaries £m	Total £m
At 1 January 2021	95	170	1,058	1,323
Total (losses) / gains in Statement of comprehensive income	(10)	(9)	51	32
Purchases	-	712	20	732
Sales/ Redemptions	(4)	(9)	(18)	(31)
Transfers into level 3	-	6	-	6
At 31 December 2021	81	870	1,111	2,062
Unrealised (losses) / gains in the period on assets held at end of the year	(5)	(9)	32	18

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Financial liabilities 2022

	Borrowings £m	Other financial liabilities £m	Total £m
At 1 January 2022	20	335	355
Total losses / (gains) in Statement of comprehensive income	1	(76)	(75)
Additions	-	1	1
Settlements	(3)	(37)	(40)
At 31 December 2022	18	223	241
Unrealised losses / (gains) in the period on liabilities held at end of the year	1	(91)	(90)

Financial liabilities 2021

	Borrowings £m	Other financial liabilities £m	Total £m
At 1 January 2021	25	-	25
Total losses in Statement of comprehensive income	1	3	4
Additions	-	341	341
Settlements	(6)	(9)	(15)
At 31 December 2021	20	335	355
Unrealised losses in the period on liabilities held at end of the year	1	3	4

The availability of a quoted price resulted in the transfer of debt securities with a value of £5m from Level 3 into Level 2 (2021: £6m from Level 2 into Level 3).

20. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company has determined that all of its investments in collective investment schemes are structured entities. These investments are presented in the Statement of Financial Position as either investment subsidiaries or as collective investment schemes, in accordance with the Company's accounting policies (see note 2(i)). In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Company has assessed that it has interests in the following types of structured entity:

- Unit trusts
- OEICs
- SICAVs
- Limited partnerships
- Private Equity Funds
- Liquidity funds
- Asset-backed securities
- Collateralised Debt Obligation
- Other debt structures

The Company's holdings in the above investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company holds redeemable shares and units in each of the funds. The funds are managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by asset managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

The Company has not provided any non-contractual financial or other support to any structured entities and there are no current intentions to do so.

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The Company's interests in structured entities are held at fair value through profit or loss. Any change in fair value is included in the Statement of comprehensive income in 'net investment income'.

	2022 £m	2021 £m
Investment subsidiaries	2,168	5,075
Equities	70	60
Collective investment schemes	3,478	2,653
Debt securities	519	665
	<u>6,235</u>	<u>8,453</u>

The Company's maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Once the Company has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund

A complete list of the Company's subsidiaries, including unit trusts and OEICs is included in note 37.

Details of commitments to subscribe to private equity funds are included in note 35.

21. Tax assets and liabilities

	2022 £m	2021 £m
Current Tax		
Current tax recoverable	<u>20</u>	<u>18</u>
	<u>20</u>	<u>18</u>
Deferred Tax		
Deferred tax assets	33	-
Deferred tax liabilities	-	(11)
Net deferred tax assets / (liabilities)	<u>33</u>	<u>(11)</u>

Movement in deferred tax assets and liabilities

Year ended 31 December 2022

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Expenses and deferred acquisition costs carried forward	3	14	17
Provisions and other temporary differences	-	(2)	(2)
Unrealised gains on investments	(12)	8	(4)
Trading losses	2	20	22
IFRS transitional adjustments	(4)	4	-
	<u>(11)</u>	<u>44</u>	<u>33</u>

Year ended 31 December 2021

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Expenses and deferred acquisition costs carried forward	-	3	3
Unrealised gains on investments	(2)	(10)	(12)
Trading losses	-	2	2
IFRS transitional adjustments	(9)	5	(4)
	<u>(11)</u>	<u>-</u>	<u>(11)</u>

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The standard rate of UK corporation tax for the accounting period is 19% (2021: 19%).

An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget on 3 March 2021, and substantively enacted on 24 May 2021. Accordingly, shareholder deferred tax assets and liabilities, where provided, are reflected at rates between 19% and 25% depending on the expected timing of the reversal of the relevant temporary difference.

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The deferred tax on the non-profit surplus has reversed and was replaced with IFRS transitional adjustments. The deferred tax on the transitional adjustments is being amortised over a 10 year period on a straight line basis commencing 2013 and ending in 2022 as the IFRS tax transitional adjustment is brought into account in the current tax computations.

Deferred tax recognition

Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law.

Deferred tax assets are recognised on tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans.

Deferred tax has not been recognised in respect of excess BLAGAB management expenses of £155m (2021: £0m). These losses can only be used against future BLAGAB income and the UK's 'corporation loss restriction' rule of 50% does not apply to the use of these losses.

The Company also has £118m of BLAGAB trading losses carried forward as at 31 December 2022. £37m of gross losses are projected to be utilised, however no value has been attributed to these deferred tax assets given the interaction with other deductible temporary differences. Deferred tax assets have not been recognised in respect of the remaining £81m of losses due to the uncertainty of future trading profits against which the losses could be offset.

EU dividend Group Litigation order

The Company in conjunction with a number of other companies has challenged HMRC's position on the corporation tax treatment of portfolio dividends from companies resident in the EU ("EU dividends") using a Group Litigation Order (GLO). The issue relates to whether the UK tax rules, which taxed EU dividends received prior to 1st July 2009 was contrary to EU law given that dividends received from UK companies were exempt from tax. In 2009 UK tax law was changed with both overseas and UK dividends generally being exempt from corporation tax.

The Supreme Court concluded in favour of the tax payer in July 2018 and a tax benefit of £7m was recognised at YE18 in relation to enhanced double tax relief claims which the company is entitled to in accordance with the Court judgement. The tax refund is for the benefit of the Pearl and London Life with-profits funds. In the case of the Pearl with-profits fund there was an increase in unallocated surplus as a result of the recognition of the tax asset.

22. Prepayments and accrued income

	2022 £m	2021 £m
Prepayments	32	35
Accrued income	16	-
	<u>48</u>	<u>35</u>
Amount recoverable after 12 months	<u>30</u>	<u>32</u>

Included within prepayments is £32m (2021: £35m) of consideration relating to the transfer of various risks to PGS. This consideration is amortised over the expected life of the contracts.

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23. Other receivables

	2022 £m	2021 £m
Initial margins	369	220
Collateral pledged	771	25
Investment broker balances	15	3
Other receivables	16	20
	<u>1,171</u>	<u>268</u>
Amount recoverable after 12 months	<u>-</u>	<u>-</u>

24. Share capital

	2022 £m	2021 £m
42,169,489 (2021: 42,169,489) "A" ordinary shares of 5p each	2	2
340,001,000 (2021: 340,001,000) "B" ordinary shares of £1 each	340	340
	<u>342</u>	<u>342</u>

The Company's Articles of Association contain a restriction on the number of shares that may be allotted.

The holders of the "A" ordinary shares have no voting rights.

The holders of the "B" shares are entitled to:

- one vote per share on matters to be voted on by owners;
- to receive 99.999% of such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits, with the balance going to the holders of the "A" ordinary shares;
- on a return of capital, repayment in full of the capital paid up on the "B" ordinary shares and a further sum equal to 99.999% of the assets available for distribution to members with the balance of assets then going to the holders of the "A" ordinary shares.

25. Capital contribution reserve

	2022 £m	2021 £m
At 1 January and 31 December	<u>97</u>	<u>97</u>

The capital contributions have been treated as capital as there is no agreement for repayment. The reserve is considered distributable, subject to the availability of distributable reserves.

26. Liabilities under insurance contracts

	Gross liabilities 2022 £m	Re- insurers' share 2022 £m	Gross liabilities 2021 £m	Re- insurers' share 2021 £m
Life assurance business:				
Insurance contracts	5,320	557	7,228	761
Investment contracts with DPF	3,759	-	4,835	-
	<u>9,079</u>	<u>557</u>	<u>12,063</u>	<u>761</u>
Amounts due for settlement after 12 months	<u>7,553</u>	<u>474</u>	<u>10,379</u>	<u>668</u>

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Movement in liabilities

	Gross liabilities	Re-insurers' share	Gross liabilities	Re-insurers' share
	2022	2022	2021	2021
	£m	£m	£m	£m
At 1 January	12,063	761	13,168	909
Premiums	166	3	191	3
Claims	(855)	(90)	(914)	(98)
Other changes in liabilities	(2,295)	(117)	(382)	(53)
At 31 December	9,079	557	12,063	761

Included in other changes in liabilities are changes in assumptions and economic and non-economic experience.

Assumptions*Valuation of participating insurance and investment contracts*

For participating business, which is with-profits business (insurance and investment contracts), the insurance contract liability is stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' 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.

For participating business the liabilities are determined stochastically using an appropriate number of risk neutral scenarios produced by an economic scenario generator calibrated to market conditions and swap yields as at the valuation date.

Valuation of non-participating insurance contracts

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

Process used to determine assumptions

The approach to the valuation of insurance contracts in the financial statements is as follows:

- In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Company uses a swap curve plus 36 bps.
- For non-participating insurance contract liabilities, the Company makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities.
- For non-participating insurance contract liabilities, the Company sets assumptions at management's best estimates and recognises an explicit margin for demographic risks.

Changes to assumptions

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques. The impact of material changes during the year were as follows:

	Increase/ (decrease) in insurance liabilities	Increase/ (decrease) in insurance liabilities
	2022	2021
	£m	£m
Change in longevity assumptions	(31)	(35)
Change in persistency assumptions	14	20
Change in expenses assumptions	(2)	33
Change in other assumptions	(6)	-

The impact of COVID-19 continues to be monitored on a regular basis, however given the uncertainty no adjustments have been deemed appropriate to date, as it remains too early to determine what the medium term impacts are likely to be and impacts may either reduce or increase future life expectancy.

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Longevity and mortality assumptions

Longevity and mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, demographic differences between annuitants and the general population, company experience and forecast changes in future mortality. For both longevity and mortality base assumptions 2020 and 2021 data was excluded as it was distorted by the one-off effect of COVID-19 and is not deemed representative.

Persistency assumptions

The assumed rates for surrender and voluntary premium discontinuance in the participating business depend primarily on the length of time a policy has been in force. Withdrawal rates used in the valuation of with-profits policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unutilised with-profits contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Expense assumptions

Expenses are assumed to increase at the rate of increase in the Retail Price Index ("RPI") or RPI excluding mortgage payments plus typical fixed margins in accordance with the various Management Service Agreements ("MSAs") the Company has in place with outsourced service providers. For with-profits business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation or RPI inflation plus 1%.

Following a period of sustained growth for the Group, the projected cost base has been reviewed for future years, and an increase in MSA rates has been assumed from 2025, with current rates applying until 31 December 2024, in line with current contractual agreements. In addition, provision has been made within the assumptions for additional short-term maintenance costs, direct costs and project costs, to reflect the investment required in the enlarged business.

Sensitivities

Financial and insurance risk sensitivities are set out in note 34.

Policyholder options and guarantees

Some of the Company's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pension contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profits contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pension contracts include guaranteed annuity options (see deferred annuities below for details). The total amount provided in the with-profits funds in respect of the future costs of guaranteed annuity options are £465m (2021: £963m).

Discretionary participating bonus rate

The regular bonus rates assumed in each scenario are determined in accordance with the Company's Principles and Practices of Financial Management ("PPFM"). Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

With-profits deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

In common with other life companies in the UK which have written pension transfer and opt-out business, the Company has set up provisions for redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases, are included in liabilities arising under insurance contracts. The total amount provided in the with-profits funds in respect of redress relating to pension policies, including associated costs, are £127m (2021: £217m).

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Managing product risk

The following sections give an assessment of the risks associated with the Company's main life assurance products and the ways in which the Company manages those risks. The following tables provide a product analysis of the liabilities under insurance contracts and reinsurers' share of insurance contract liabilities within the Statement of financial position.

2022

	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profits funds:				
Pensions:				
Deferred annuities – with guarantees	1,189	36	-	-
Deferred annuities – without guarantees	2	-	-	-
Immediate annuities	55	-	-	-
Unitised with-profits	1,321	3,441	-	-
Total pensions	2,567	3,477	-	-
Life:				
Unitised with-profits	168	280	-	-
Life with-profits	375	-	-	-
Total life	543	280	-	-
Other	238	-	-	-
Non-profit funds:				
Deferred annuities – without guarantees	8	-	-	-
Immediate annuities	1,973	-	563	-
Protection	(12)	-	(7)	-
Unit-linked	3	2	1	-
	5,320	3,759	557	-

2021

	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profits funds:				
Pensions:				
Deferred annuities – with guarantees	1,892	53	-	-
Deferred annuities – without guarantees	2	-	-	-
Immediate annuities	71	-	-	-
Unitised with-profits	1,527	4,421	-	-
Total pensions	3,492	4,474	-	-
Life:				
Unitised with-profits	193	352	-	-
Life with-profits	508	-	-	-
Total life	701	352	-	-
Other	344	-	-	-
Non-profit funds:				
Deferred annuities – without guarantees	23	-	-	-
Immediate annuities	2,674	-	769	-
Protection	(10)	-	(9)	-
Unit-linked	4	9	1	-
Other	-	-	-	-
	7,228	4,835	761	-

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With-profits fund (Unitised and Traditional)

The Company operates a number of with-profits funds in which the with-profits policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-profit business is also written in some of the with-profits funds and some of the funds may include investment contracts, immediate annuities and deferred annuities with Guaranteed Annuity Rates ("GAR").

The investment strategy of each fund differs, but is broadly to invest in a mixture of debt securities, equities, property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Company has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profits funds is set out in the PPFM for each with-profits fund and is overseen by With-Profits Committees. Advice is also taken from the with-profits actuary of each with-profits fund. Compliance with the PPFM is reviewed annually and reported to the PRA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profits funds together with other elements of the experience of the fund. The owners of the Company are entitled to receive approximately one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with-profits policies are exposed to equivalent risks, the main difference being that unitised with-profits policies purchase notional units in a with-profits fund whereas traditional with-profits policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profits fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ("GCO") policies.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), the Company has purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Company seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities

This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk, which is made up of market and credit risk, depends on the extent to which the annuity payments under the contracts have been matched by suitable assets, which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection

These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

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The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

27. Borrowings

	2022 £m	2021 £m
Financial liabilities at fair value through profit or loss:		
Property reversion loan	18	20
	<u>18</u>	<u>20</u>
Amount due for settlement after 12 months	<u>18</u>	<u>20</u>

As part of a loan agreement with Santander UK plc ("Santander") relating to the sale of Extra-Income Plan policies, Santander receive an amount from the Company calculated by reference to the movement of the Halifax House Price Index and the Company has undertaken to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. The embedded derivative feature of the contract is unable to be separately measured from the host contract. As such the borrowing is designated as a liability at fair value through profit or loss. During the year, repayments totalling £3m (2021: £6m) were made. It is expected that further repayments will occur within 12 months, broadly in line with the reduction in associated property reversions (note 13), although the value cannot be reliably estimated.

Movement in liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's Statement of cash flows as cash flows from financing activities.

	At 1 January 2022 £m	Financing cash flows £m	Other changes in value £m	At 31 December 2022 £m
Property reversion loan	20	(3)	1	18
	<u>20</u>	<u>(3)</u>	<u>1</u>	<u>18</u>

	At 1 January 2021 £m	Financing cash flows £m	Other changes in value £m	At 31 December 2021 £m
Property reversion loan	25	(6)	1	20
	<u>25</u>	<u>(6)</u>	<u>1</u>	<u>20</u>

28. Other financial liabilities

	2022 £m	2021 £m
Obligations for repayment of collateral received	51	313
Amount due to related parties	223	335
	<u>274</u>	<u>648</u>
Amount due for settlement after 12 months	<u>205</u>	<u>317</u>

Amounts due to related parties are due to strategic subsidiaries and relate to mortgage loans where beneficial interest has been transferred. Further detail is provided in note 18.

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29. Provisions

	Strategic review of outsourcing relationships £m	Other £m	Total £m
At 1 January 2022	2	3	5
Additions in the year	2	-	2
Utilised during the year	(1)	-	(1)
At 31 December 2022	<u>3</u>	<u>3</u>	<u>6</u>

Provision for strategic review of outsourcing relationships

On 29 November 2018, Phoenix Group announced the intention to move to a single, digitally enhanced outsourcer platform which will improve customer outcomes, supported by Diligenta Limited. A provision was recognised in 2018 for the Company's share of the expected cost of the platform migration, payable to PGMS as policies are successfully transferred.

Other provisions

'Other' provisions include a provision relating to unfunded pension liabilities.

30. Payables related to direct insurance contracts

	2022 £m	2021 £m
Payables related to direct insurance contracts	<u>155</u>	<u>130</u>
Amount due for settlement after 12 months	<u>-</u>	<u>-</u>

Payables related to direct insurance contracts includes balances for outstanding claims.

31. Other payables

	2022 £m	2021 £m
Investment broker balances	-	2
Other payables	<u>10</u>	<u>11</u>
	<u>10</u>	<u>13</u>
Amount due for settlement after 12 months	<u>-</u>	<u>-</u>

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32. Cash flows**Cash flows from operating activities**

	2022	2021
	£m	£m
Loss for the year before tax	(185)	(45)
<i>Non-cash movements in loss for the year before tax</i>		
Fair value (gains) / losses on:		
Investment property	(2)	(3)
Subsidiaries held for investment purposes	76	(106)
Other financial assets	2,539	574
Change in unallocated surplus	(83)	15
Interest expense on borrowings	1	-
<i>Changes in operating assets and liabilities</i>		
Change in investment assets	1,921	493
Change in net derivative assets/liabilities	(18)	53
Change in obligations for repayment of collateral received	(262)	(345)
Change in reinsurers' share of insurance and investment contract liabilities	459	100
Change in other assets	(916)	(17)
Change in other liabilities	(89)	342
Change in insurance contract and investment contract liabilities	(3,268)	(1,060)
Cash generated from operations	<u>173</u>	<u>1</u>
Supplementary disclosures on cash flow from operating activities		
Interest received	103	105
Dividends received	<u>112</u>	<u>93</u>

33. Capital management**Capital Management Framework**

The Company's Capital Management Framework is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors; and
- meet the dividend expectations of owners.

The Company has met all of these objectives throughout the financial year. The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Company to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital requirements of the Company are forecast on a periodic basis, and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. Capital plans are ultimately subject to approval by the Board.

Extractions of capital are required to be in line with the dividend policy approved by the Board. The dividend policy covers quantity of capital, quality of capital, and the amount of distributable reserves.

Solvency II ("SII") external capital requirement

Following the implementation of the SII directive effective from 1 January 2016, the Company's capital is managed on a SII basis.

A SII capital assessment involves valuation in line with SII principles of the Company's Own Funds and a risk-based assessment of the Company's Solvency Capital Requirement ("SCR"). The Company is required to meet the SCR at each quarterly valuation date. SII surplus is the excess of Eligible Own Funds over the SCR.

Basic Own Funds represent the excess of assets over liabilities from the SII balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items. The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). Limits are imposed on the amount of each tier that can be held to cover the SCR.

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Surplus funds in the with-profit funds are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

The Company has obtained PRA approval to calculate the SCR using an Internal Model. This model has been calibrated to ensure that the Company's liabilities could be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a 1 in 200 year event.

The estimated SII surplus position (unaudited) at 31 December 2022 is presented in the Strategic report on page 3.

The Company did not breach the SCR at any time during the year.

Capital Policy

The capital policy is set by the Board and ensures there is sufficient capital to cover the SCR under stress conditions. It is monitored weekly by management and is reported each month at an executive and Board level.

The policy also ensures sufficient liquidity to meet creditor and dividend obligations. Volatility in the latter is monitored at the executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the Board's risk appetite, de-risking activities are undertaken.

The Company did not breach its capital policy at any time during the year.

34. Risk management

(a) Overview

Risk Management Framework

The Group's Risk Management Framework ("RMF") embeds proactive and effective risk management across the Phoenix Group. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The Group's RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards. A diagram showing the nine elements of the Group's RMF is presented within the Company's strategic report, with further detail included in the Group's 2022 Annual Report and Accounts.

Risk Universe

The Group's Risk Universe (applicable to the Company) summarises the comprehensive set of risks to which the Company is exposed. The risk profile of each is an assessment of the impact and likelihood of those risks crystallising and the Company failing to achieve its strategic objectives. Changes in the risk profile are influenced by the commercial, economic and non-economic environment and are identified, assessed, managed, monitored and reported through the Group's RMF and Own Risk and Solvency Assessment ("ORSA") processes.

There are three levels of Risk Universe categories; the highest is Level 1 and includes:

Level 1 category	Definition
Strategic risk	A possible source of loss that might arise from the pursuit of an unsuccessful business plan; this source of loss can be to the shareholders and / or to the policyholders, and may drive reputational damage which could further impact the Company's ability to meet its strategic objectives.
Financial soundness	The risk of financial failure, reputational loss, loss of earnings and/or value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial, taxation and regulatory information.
Market risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of interest rates, inflation rates and currency exchange rates.
Credit risk	The risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.
Insurance risk	The risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.
Customer risk	The risk of financial failure, reputational loss, loss of earnings, and/or value arising from inappropriate or poor customer treatment (including poor advice).

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Operational risk	The risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.
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The Company has also defined a more granular categorisation for Level 2 and Level 3 risks. This helps to further explain our attitude to these risks.

(b) Climate risk

The Company is exposed to market and credit risk related to the transition to a low carbon economy, and the physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications. As such, this risk is treated as a cross-cutting risk in the Group's Risk Universe.

Identification of climate related risks has been embedded into the Group's RMF, which applies to the Company. Significant progress has been made in recent years in developing a risk metrics and targets framework, and establishing appropriate governance and risk management processes. The Group has adopted a proactive approach towards combatting climate change, with key net-zero targets. Further details on these targets and on managing the related climate change risks are provided in the Climate Report and Task Force for Climate-related Financial Disclosures ("TCFD") within the Group's 2022 Annual Report and Accounts.

(c) Strategic risk

Strategic risks threaten the achievement of the Company and Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Company recognises that core strategic activity brings with it exposure to strategic risk. However, the Company seeks to proactively review, manage and control these exposures.

The Company's strategy and business plan are exposed to external events that could prevent or impact the achievement of the strategy; events relating to how the strategy and business plan are executed; and events that arise as a consequence of following the specific strategy chosen. The identification and assessment of strategic risks is an integrated part of the RMF. Strategic Risk should be considered in parallel with the Risk Universe as each of the risks within the Risk Universe can impact the Group and Company's strategy.

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

(d) Financial risks

The use of financial instruments naturally exposes the Company to the risks associated with them which comprise mainly financial soundness risk, market risk, and credit risk. Financial soundness is a broad risk category encompassing liquidity and funding risk, capital management risk and tax risk.

Responsibility for agreeing the financial risk profile rests with the Board, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the Board will receive advice from the Chief Investment Officer, the With-Profit Actuaries and the Chief Actuary as to the potential implications of that risk profile on the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The Chief Actuary will also advise the extent to which the investment risk assumed is consistent with the Company's commitment to deliver fair customer outcomes.

The Company's overall exposure to investment risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, in line with the investment strategy developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Company's Asset Liability Management ("ALM") framework relies on the matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with-profits business, which includes all of the Company's participating business, non-linked non-participating business and unit-linked business.

(e) Financial Soundness: Liquidity and funding risk

Liquidity risk in its broadest sense can be defined as failure to maintain adequate levels of financial resources to meet obligations as they fall due. Funding risk relates to the potential inability to raise additional capital or liquidity when required in order to maintain the resilience of the balance sheet. The Company has exposure to liquidity risk as a result of any failure to meet its short-term cash flow requirements, to meet its obligations to policy liabilities and the operating requirements of its subsidiaries.

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The Board has defined a number of governance objectives and principles and the liquidity risk framework is designed to ensure that:

- Liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and Principles and Practices of Financial Management;
- Cash flows are appropriately managed and the reputation of the Company and the Group are safeguarded; and
- Appropriate information on liquidity risk is available to those making decisions.

The Company's liquidity risk management strategy is based on a risk appetite of less than a 1 in 200 chance of having insufficient liquid or tangible assets to meet financial obligations as they fall due and is supported by:

- Holding appropriate assets to meet liquidity buffers;
- Holding high quality liquid assets to support day to day operations;
- An effective stress testing framework to ensure survival horizons are met under different plausible scenarios;
- Effective liquidity portfolio management; and
- Liquidity risk contingency planning

Liquidity forecasts showing headroom against liquidity buffers across a range of time horizons is monitored across all funds and liquidity pools on a monthly basis. In the event of a liquidity shortfall, this would be managed in line with the Contingency Liquidity Plan where the latest available contingent management actions would be considered. In addition the Company performs periodic reviews of its liquidity risks, monitors risk indicators, and performs stress testing on these risks to define minimum liquid asset requirements and assess resilience of available actions. This mitigates the risk that the Company does not have appropriate liquidity under severe stress conditions.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The Company actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching.

For non-participating unit-linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit-linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets.

Investment contract policyholders have the option to terminate or transfer their contracts in part or in full at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Company does not expect all these amounts to be paid out within one year of the reporting date. Such surrenders would be matched in practice, if necessary, by sales of underlying assets and mass lapses are considered within liquidity requirements. The Company can delay settling liabilities to unit-linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets.

In extreme circumstances, the Company could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of less liquid assets such as property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Company considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Company's own risk exposure. If considered necessary, deferral terms within the policy conditions are invoked.

A significant proportion of the Company's financial assets are held in gilts, cash, supranationals and investment grade securities which the Company considers sufficient to meet the liabilities as they fall due.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Company expects to be able to manage liquidity risk on an ongoing basis, despite the market volatility caused by the current high levels of inflation and interest rate increases from most of the world's central banks including the Bank of England.

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(f) Contractual undiscounted maturities

The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest. The contractual maturities of liabilities under insurance contracts are included based on the estimated timing of the amounts recognised in the Statement of financial position in accordance with the requirements of IFRS 4:

2022	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	1,526	3,203	4,350	-	9,079
Investment contracts	1,603	-	-	-	1,603
Borrowings	-	-	-	18	18
Derivatives	5	62	1,570	-	1,637
Other financial liabilities	88	92	276	-	456
Reinsurance payables	7	-	-	-	7
Payables related to direct insurance contracts	155	-	-	-	155
Accruals	6	-	-	-	6
Other payables	10	-	-	-	10

2021	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	1,684	3,918	6,461	-	12,063
Investment contracts	1,887	-	-	-	1,887
Borrowings	-	-	-	20	20
Derivatives	5	-	108	-	113
Other financial liabilities	349	96	323	-	768
Reinsurance payables	6	-	-	-	6
Payables related to direct insurance contracts	130	-	-	-	130
Accruals	6	-	-	-	6
Other payables	13	-	-	-	13

(g) Financial Soundness: Capital management risk

Capital management risk is defined as the failure of the Company to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Company has exposure to capital management risk through the regulatory capital requirements mandated by the PRA. Note 33 gives more detail on how capital and capital management risk are managed.

(h) Financial Soundness: Tax risk

Tax risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation.

Potential causes of Tax risk are: the Company making a material error in its tax reporting; incorrect calculation of tax provisions; failure to implement the optimum financial arrangements to underpin a commercial transaction; and incorrect operation of policyholder tax requirements.

Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. In addition, the Company has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Company has in place to manage those risks.

(i) Market risk

The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.

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The Company is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including owners' reserves yet to be distributed, surplus assets within the long-term funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Company manages the levels of market risk that it accepts through the operation of a Market Risk Policy, using a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits;
- Clearly defined investment benchmarks for policyholder and shareholder funds;
- Stochastic and deterministic asset/liability modelling;
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio; and
- Setting risk limits for main market risks and managing exposures against these appetites.

All operations comply with regulatory requirements relating to the taking of market risk.

Assets in the shareholder funds are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector, geographical region and credit rating are used where relevant to reduce concentration risk among the assets held.

The assets of the participating business are principally managed to support the liabilities of the participating business and are appropriately diversified by both asset class and geography, considering:

- The economic liability and how this varies with market conditions;
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and PPFM; and
- The need to ensure that regulatory and capital requirements are met.

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Markets remain volatile particularly given increased inflation and action by central banks to reduce these pressures on economies whilst balancing the need to aid post pandemic recovery. This is noted in the Strategic Report principal risk section.

(j) Market Risk: Interest rate and inflation risk

Interest rate (and inflation) risk is the risk that changes in long term interest rates or inflation rates (or the volatilities of these rates) could lead to reduction in asset values relative to liabilities which may result in losses for policyholders and shareholders.

The main financial assets held by the Company which give rise to interest rate risk are debt securities, loans and deposits, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit-linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments and borrowings.

The Company is required to manage its interest rate exposures in line with the Company's qualitative risk appetite statements, quantitative risk metrics and any additional hedging benchmarks. Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-profit funds. For with-profit business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profits funds of the Company provide capital to allow such mismatching to be effected. In practice, the Company maintains an appropriate mix of debt securities according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

With-profits business and non-participating business within the with-profits funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include debt securities and derivatives. For with-profits business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits. The contribution of these funds to the Company result is determined primarily by either the owners' share of the declared annual bonus or by the owners' interest in any change in value in the capital advanced to the Company's with-profits funds.

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The matching of movements in liabilities and hedging assets under several stresses is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

A sensitivity analysis for interest rate risk is presented in section (r) below.

(k) Market Risk: Currency risk

Currency risk is the risk that changes in the value of currencies could lead to reductions in asset values which may result in losses for policyholders and shareholders.

The Company's financial assets are generally denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad. This exposure is managed through the use of derivatives.

The Company is exposed to currency risk fluctuations impacting the income flow of management charges from the invested assets of unit-linked funds; this is primarily managed against risk appetites through the use of derivatives.

Certain with-profits funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment Committees.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2022 (2021: not considered significant).

(l) Market Risk: Equity and property price risk

The Company is exposed to the risk of reductions in the valuation of equities (or changes in the volatility) or property investments which could result in reductions in asset values and losses for policyholders or shareholders. In this context, equity assets should be taken to include shares, equity derivatives, equity collectives and unlisted equities. Property assets include direct property investment, shares in property companies, property collectives and structured property assets.

Equity and property price risk is primarily borne in respect of assets held in with-profits funds, unit-linked funds or equity release mortgages in the non-profit fund. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profits funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of owners' funds. For the non-profit fund property price risk from equity release mortgages is borne by the Company with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

The Company's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for maintaining adequate regulatory capital and treating customers fairly. Exposure to property price risk on No Negative Equity Guarantees on certain equity release mortgages is hedged through Over-the-Counter contract of insurance. Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited. For the participating business, exposures are also partially hedged through the use of derivatives. Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by any one property or group of property, geographic area, or property type.

The Company as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

A sensitivity analysis for equity and property price risk is presented in section (r) below.

(m) Credit risk

Credit risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.

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There are two principal sources of credit risk for the Company:

- Credit risk which results from direct investment activities, including investments in debt securities, derivative counterparties, collective investment schemes, hedge funds and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance agreements, and the lending of securities.

The amount disclosed in the Statement of financial position in respect of all financial assets, together with rights secured under unrecognised collateral arrangements, but excluding those that back unit-linked liabilities, represents the Company's maximum exposure to credit risk.

Credit risk management

Credit risk is managed by the monitoring of aggregate Company exposures to individual counterparties and by appropriate credit risk diversification (including by sector, credit rating and geographic area). The Company manages the level of credit risk it accepts through the use of credit risk tolerances and limits. Additional controls for illiquid asset concentration risk is set out via specific risk limits within the risk appetite framework. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts.

The Company operates an Internal Credit Ratings Committee, Ratings Committee and Portfolio Credit Committee to monitor and control oversight of externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessment from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. These Committees review the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes, in-line with the regulatory requirements.

The Company maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly. Significant exposures and breaches are reported to the Board and to the Investment Committee.

The Company has increased exposure to an array of illiquid credit assets such as equity release mortgages, local authority loans, social housing, infrastructure and commercial real estate with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

The impact of non-government debt securities and, inter alia, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Credit spreads are the excess of corporate bond yields over the risk-free rate to reflect the higher level of risk and return. Similarly, the value of derivatives that the Company holds takes into account the full changes in swap spreads.

The credit risk borne by the shareholders on with-profits policies is dependent on the extent to which the underlying insurance fund is relying on shareholder support. Exposure to credit risk arising from investments held in the with-profits funds is similar in purpose to that disclosed for market risk exposures in section (i).

Concentration of credit risk

Concentration of credit risk might exist where the Company has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Company's counterparty risk is monitored by the counterparty limit framework contained within the Group Credit Risk Policy and further provided in investment guidelines and investment management agreements, overlaid by regulatory requirements. Counterparty risk in respect of OTC derivative counterparties is monitored using a Potential Future Value ("PFE") exposure metric.

The Company is also exposed to concentration of credit risk with outsourced service providers. This is due to the nature of the outsourced services market. The Company operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees as well as through stress and scenario testing.

Reinsurance

The Company is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. The Company's policy is to place reinsurance only with highly rated counterparties. The Company must assign internal credit ratings to reinsurance counterparties which must be approved by the Company's Internal Credit Rating Committee. The Company is restricted from assuming concentrations of risk with individual external reinsurers by specifying limits on ceding and the minimum conditions for acceptance and retention of reinsurers, however due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, some concentration risk does arise. The Company manages its exposure to reinsurance credit risk through collateralisation where appropriate and regular monitoring of exposures at the Reinsurance Management Committee.

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Collateral

The credit risk exposure of the Company is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. The use of collateral is governed by formal contractual agreements between the parties.

Collateral is mainly obtained in respect of reinsurance, OTC derivatives and stocklending activity. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist.

Information on the values of collateral held and pledged are given in note 18.

(n) Quality of credit assets

An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table sets out the Company's aggregate credit exposure to different credit assets for those counterparties that are rated by an External Credit Assessment Institution ("ECAI"). Credit assets and their issuers are rated by ECAI's based on their credit worthiness. The Company aims to mainly invest in Investment Grade assets which are those assets in the range of AAA to BBB. Any asset with a rating lower than BBB- is considered sub-investment grade.

2022

	AAA £m	AA £m	A £m	BBB and below £m	Internally rated £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	6	-	6
Derivatives	-	60	60	-	-	5	-	125
Debt securities	178	1,556	388	115	380	330	-	2,947
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	1,396	1,396
Reinsurers' share of insurance contract liabilities	-	557	-	-	-	-	-	557
Cash and cash equivalents	-	-	78	-	-	-	-	78
	178	2,173	526	115	380	341	1,396	5,109

2021

	AAA £m	AA £m	A £m	BBB and below £m	Internally rated £m	Non- Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	6	-	6
Derivatives	-	302	84	-	-	1	-	387
Debt securities	255	2,436	437	185	539	395	-	4,247
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	1,651	1,651
Reinsurers' share of insurance contract liabilities	-	761	-	-	-	-	-	761
Cash and cash equivalents	-	7	51	-	-	-	-	58
	255	3,506	572	185	539	402	1,651	7,110

The Company had no material assets which were impaired or past due (2021: £nil).

To achieve better diversification of credit risk and enhance returns, the Company invests in private debt assets which are more illiquid than standard corporate bonds and generally not rated by an ECAI. The monitoring and control oversight of internally rated assets is discussed in more detail in section (m).

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Debt securities were internally rated as follows:

	2022	2021
	£m	£m
Credit rating		
AAA	149	203
AA	61	84
A	128	221
BBB	40	29
BB and below	2	2
	380	539

Credit ratings have not been disclosed in the above tables for holdings in collective investment schemes. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

Credit ratings have not been disclosed in the above tables for the assets of the unit-linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit-linked funds are assets which are held as reinsured external fund links. Under certain circumstances, the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the Company and the Company considers the circumstances under which losses may arise to be very remote.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the Group, then the rating of the parent company has been used where appropriate.

(o) Insurance risk

Insurance risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.

The Company is exposed to the following elements of Insurance risk:

- Longevity risk - lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality
- Mortality risk - higher than expected death claims on assurance products or lower than expected improvements in mortality
- Morbidity/Disability risk - higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies
- Persistency risk - adverse movement in surrender rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates, propensity to commute benefits, transfer out rates or the occurrence of mass lapse event leading to losses
- Expense risk - unexpected timing or value of expenses incurred

Objectives and policies for mitigating insurance risk

Insurance risks are managed by monitoring the Company's exposure against pre-defined appetite limits. If a risk is moving out of appetite, the Company can choose to mitigate it via reinsurance in the case of longevity, mortality and morbidity risks, or by taking other risk reducing actions.

This is supported by additional methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes.

For expense risk, the service companies within the Group incurs the cost of policy management services and charges the Company a fixed per policy charge with pre-agreed rate increases over a fixed term, thereby reducing some of the expense risk exposure borne by the Company.

The profitability of the run-off of the Company's Heritage business depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

The Company's liabilities under insurance contracts are detailed in note 26, which also covers the risks arising on specific contracts and how these are mitigated.

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A sensitivity analysis for insurance risk is presented in section (r) below.

(p) Customer risk

Customer risk is defined as the risk of financial failure, reputational loss, loss of earnings, and/or value arising from inappropriate or poor customer treatment (including poor advice). It can arise as a result of:

- **Customer Treatment:** Failings in the design and execution of the support and service interactions with customers lead to poor customer outcomes.
- **Customer Transformation:** The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Phoenix Group customer treatment risk appetites and regulatory requirements.
- **Product and Propositions:** Products/propositions are not designed and managed appropriately, leading to poor customer outcomes.
- **Sales and Distribution:** Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes.

The Group's Conduct Risk Appetite (which applies to the Company), sets the boundaries within which the Company expect customer outcomes to be managed. In addition, 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 Company also has a suite of customer policies which set out the key customer risks and Control Objectives in place to mitigate them. The customer risks for the Group, and of the Company, are regularly reported to management oversight committees.

(q) Operational risk

Operational risk is defined as the risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

Operational risk arises due to failures in one or more of the following aspects of our business:

- indirect exposures through our outsourcing service providers and suppliers;
- direct exposures through internal practices, actions or omissions;
- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Company's control; and
- negligence, mal-practice or failure of employees, or suppliers to follow good practice in delivering operational processes and practices.

It is accepted that it is neither possible, appropriate nor cost effective to eliminate operational risks from the Company as operational risk is inherent in any operating environment particularly given the regulatory framework under which the Company operates. As such the Company will tolerate a degree of operational risk subject to appropriate and proportionate levels of control around the identification, management and reporting of such risks.

The Company also has a set of operational risk policies that set out the nature of the risk exposure and minimum control standards in place to control the risk.

(r) Financial and insurance risk sensitivities

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Company's most significant financial and insurance risk exposures. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged. The values are for a full financial year.

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, credit spreads and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

Sensitivities

Limitations

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented above. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the mortality sensitivity analysis have been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

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	2022	2021
	Effect on profit after tax and equity £m	Effect on profit after tax and equity £m
Financial sensitivities		
100bp widening of credit spreads	(14)	(21)
100bp narrowing of credit spreads	11	9
100bp increase in interest rates	(30)	(57)
100bp decrease in interest rates	33	69
10% increase in equity and property prices	(13)	(12)
10% decrease in equity and property prices	12	11
Insurance sensitivities		
5% increase in assurance mortality	-	1
5% decrease in assurance mortality	1	-
5% increase in annuitant longevity	(27)	(50)
5% decrease in annuitant longevity	27	50
10% increase in lapse rates	8	33
10% decrease in lapse rates	(8)	(33)

35. Commitments

	2022 £m	2021 £m
To subscribe to private equity funds and other unlisted assets	195	146

36. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms apart from transfers of long term business.

Reinsurance accepted and ceded

The Company acts as both the reinsurer and the cedant in reinsurance transactions with Phoenix Life Limited ("PLL"), a fellow group company. Unit-linked funds on policies written prior to 1 January 2000 and increments written on unit-linked policies from 1 January 2000 are fully reinsured to PLL.

Reinsurance transactions

	2022 £m	2021 £m
<i>Reinsurance accepted from fellow subsidiaries:</i>		
Policyholder claims	9	11
Share of insurance contract liabilities	112	143
<i>Reinsurance ceded to fellow subsidiaries:</i>		
Annual management charges receivable	15	17
Reinsurers' share of investment contract liabilities	1,397	1,651

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Other transactions with related party companies

	2022	2021
	£m	£m
<i>Income earned from related parties</i>		
Interest received from subsidiaries	6	3
<i>Expenses charged by related parties</i>		
Investment management services provided by fellow subsidiaries	5	7
Management services provided by fellow subsidiary	64	67
Investment management services provided by other related parties	-	2
	<u>69</u>	<u>76</u>
<i>Amounts due from related parties</i>		
Debt securities due from subsidiaries	249	343
Other amounts due from fellow subsidiaries	14	11
	<u>263</u>	<u>354</u>
<i>Amounts due to related parties</i>		
Amounts due to subsidiaries - ERM related	223	335
Provisions due to fellow subsidiaries	3	2
Other amounts due to fellow subsidiaries	8	7
	<u>234</u>	<u>344</u>

Where financial instruments arising from transactions with related parties are offset in the Statement of financial position the net position is presented in the tables above.

Transactions with the immediate parent company

Dividends paid to Pearl Group Holdings (No. 2) Limited during the year were £150m (2021: £nil).

Subsidiaries

Note 18 gives details of the transfer of the beneficial interest in certain ERM mortgage loans to strategic wholly owned subsidiaries. On 10 November 2021, the Company purchased £341m of ERM Loans from PLL.

Fellow subsidiaries

Phoenix Unit Trust Managers Limited provides investment management services to the Company, under an investment management agreement.

PGS and PGMS provide management services to the Company, in the form of staff and other services. The provision for strategic review of outsourcing relationships (note 29) is also due to PGMS.

Transactions with key management personnel

The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 8. Other transactions are disclosed below:

	2022	2021
	£000	£000
Key management personnel and their close family members transactions with Pensions and Savings products sold by the Group:		
Contributions in the year	11	459
Transfer out of investments in the year	(19)	(450)
Value of investments at year end	<u>3,047</u>	<u>3,381</u>

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37. Listing of subsidiaries

The subsidiaries of the Company held for strategic purposes and measured at cost less impairment are as follows:

Company name	Country of incorporation and principal place of operation	Type of holding (all wholly owned)
London Life Trustees Limited	England and Wales	Ordinary shares of £1
National Provident Life Limited *	England and Wales	Ordinary shares of £1
NP Life Holdings Limited	England and Wales	Ordinary shares of £1
NPI (Westgate) Limited	England and Wales	Ordinary shares of £1
NPI (Printworks) Limited	England and Wales	Ordinary shares of £1
Pearl (Barwell 2) limited	England and Wales	Ordinary shares of £1
Pearl (Chiswick House) Limited	England and Wales	Ordinary shares of £1
Pearl (Moor House 1) Limited	England and Wales	Ordinary shares of £1
Pearl (Moor House 2) Limited	England and Wales	Ordinary shares of £1
Pearl (Printworks) Limited	England and Wales	Ordinary shares of £1
Pearl (Stockley Park) Limited	England and Wales	Ordinary shares of £1
Pearl Customer Care Limited	England and Wales	Ordinary shares of £1
Pearl Trustees Limited	England and Wales	Ordinary shares of £1
Phoenix ER2 Limited	England and Wales	Ordinary shares of £1
The London Life Association Limited	England and Wales	Ordinary shares of 50p

* Held indirectly, being a subsidiary of NP Life Holdings Limited.

All strategic subsidiaries have the registered office address 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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The subsidiaries of the Company held for investment purposes and measured at fair value are as follows:

Company Name	Country of incorporation and principal place of operation	Type and % of holding	Address
ASI Phoenix Global Private Equity III LP (Pool A)	Scotland	Limited Partnership, 29.4%	4
ASI Phoenix Global Private Equity III LP (Pool B)	Scotland	Limited Partnership, 29.4%	4
ASI Phoenix Global Private Equity III LP (Pool C)	Scotland	Limited Partnership, 29.4%	4
Ignis Strategic Solutions Funds plc - Fundamental Strategies Fund	Republic of Ireland	OEIC, sub fund, 96.83%	2
Janus Henderson Institutional Short Duration Bond Fund	England and Wales	Unit Trust, 99.98%	3
Janus Henderson Institutional Mainstream UK Equity Trust	England and Wales	Unit Trust, 34.51%	3
Janus Henderson Institutional High Alpha UK Equity Fund	England and Wales	Unit Trust, 21.98%	3
PUTM Bothwell Floating Rate ABS Fund	England and Wales	Unit Trust, 45.51%	1
PUTM Bothwell Global Credit Fund	England and Wales	Unit Trust, 19.14%	1
PUTM Bothwell Asia Pacific (Excluding Japan) Fund	England and Wales	Unit Trust, 22.59%	1
PUTM Bothwell Sub-Sovereign A Fund	England and Wales	Unit Trust, 28.76%	1
PUTM Bothwell Tactical Asset Allocation Fund	England and Wales	Unit Trust, 29.31%	1
PUTM ACS North American 2 Fund	England and Wales	Unit Trust, 24.82%	1
Ignis Strategic Solutions Funds plc - Systematic Strategies Fund	Republic of Ireland	OEIC, sub fund, 36.79%	2
ASI Phoenix Fund Financing SCSp (PLFF)	Luxembourg	Special Limited Partnership, 100%	5
Pearl Private Equity LP	Scotland	Limited Partnership, 100%	4
Pearl Strategic Credit LP	Scotland	Limited Partnership, 100%	4

All investments in unit trusts are held in Authorised unit trusts.

Registered office addresses

- 1 Wythall Green Way, Wythall, Birmingham B47 6WG.
- 32 Molesworth Street, Dublin 2, D02 Y512 Ireland.
- 201 Bishopsgate, London, EC2M 3AE.
- 1 George Street, Edinburgh. EH2 2LL.
- 35a, Avenue J.-F. Kennedy, L-1855 Luxembourg

38. Other information

The Company's immediate parent is Pearl Group Holdings (No. 2) Limited and its ultimate parent and ultimate controlling party is Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.